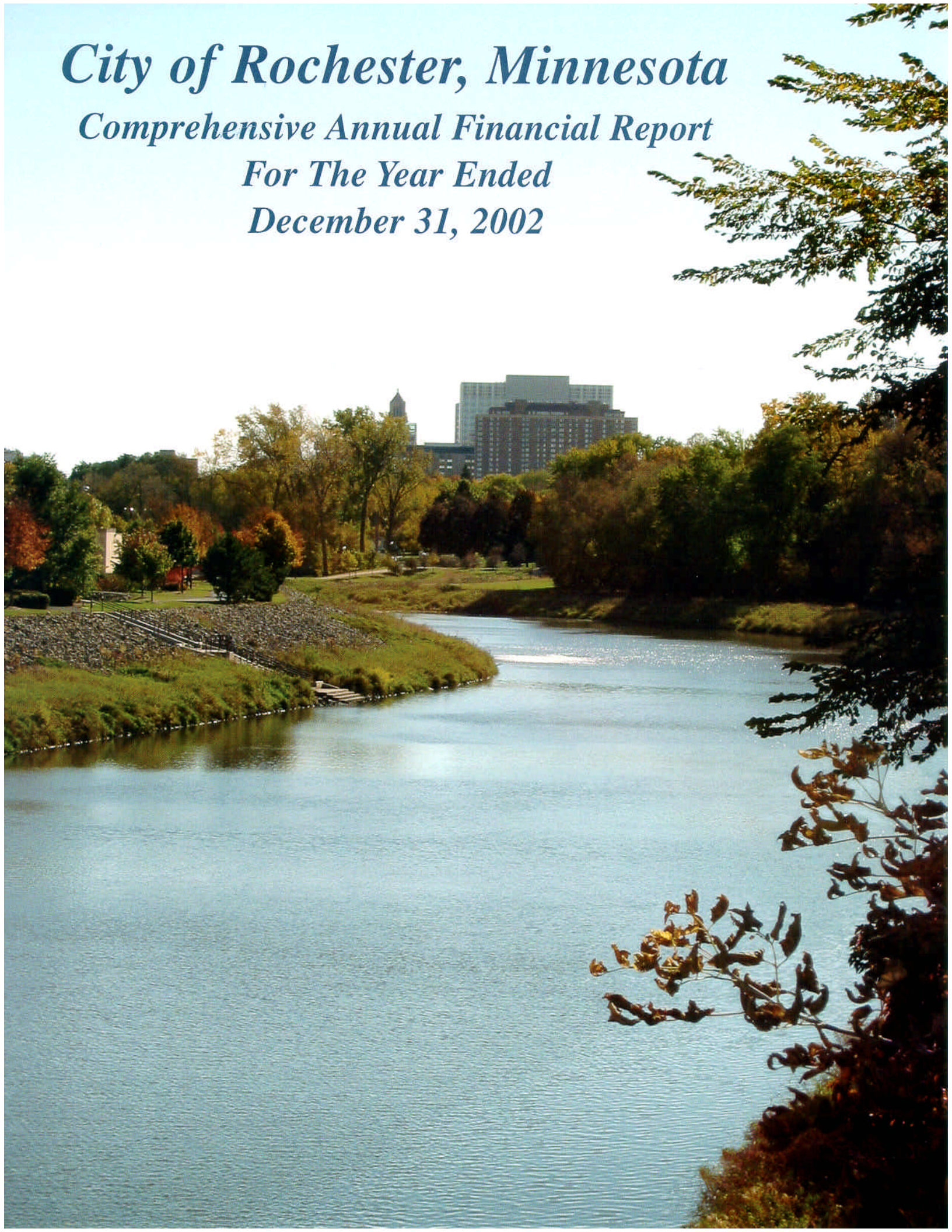


*City of Rochester, Minnesota*  
*Comprehensive Annual Financial Report*  
*For The Year Ended*  
*December 31, 2002*





**CITY OF ROCHESTER, MINNESOTA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002**

DEPARTMENT OF FINANCE

DALE R. MARTINSON, Director of Finance

BRUCE W. ATKINSON, Assistant Finance Director

CHERYL L. BELTER, Accountant

Members of the Government Finance Officer's Association  
of the United States and Canada

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**CITY OF ROCHESTER, MINNESOTA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the Fiscal Year Ended December 31, 2002**

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**CITY OF ROCHESTER, MINNESOTA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the Fiscal Year Ended December 31, 2002**

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**CITY OF ROCHESTER, MINNESOTA**  
**INTRODUCTORY SECTION**  
**DECEMBER 31, 2002**

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# ROCHESTER

*Minnesota*



June 12, 2003

FINANCE DEPARTMENT  
201 4th Street SE, Room 204  
Rochester, MN 55904-3779  
(507) 285-8088  
FAX #(507) 529-4587

To the Honorable Mayor, Members of the Common Council, and the Citizens of the City of Rochester:

Minnesota statutes require all cities to issue an annual report on its financial position and activity prepared in accordance with generally accepted accounting principles (GAAP), and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants or the Office of the State Auditor. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Rochester for the fiscal year ended December 31, 2002.

This report consists of management's representations concerning the finances of the City of Rochester. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Rochester has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Rochester's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Rochester's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Rochester's financial statements have been audited by Smith, Schafer and Associates, Ltd., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Rochester for the fiscal year ended December 31, 2002, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Rochester's financial statements for the fiscal year ended December 31, 2002, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Rochester was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Rochester's separately issued Single Audit Report.



## **CITY OF ROCHESTER, MINNESOTA**

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Rochester's MD&A can be found immediately following the report of the independent auditors.

### **PROFILE OF THE GOVERNMENT**

The City of Rochester, incorporated on August 5, 1858, is located in the southeastern part of the State of Minnesota, which is considered to be one of the top growth areas in the state, and one of the top growth areas in the country. The City currently has a land area of nearly 47 square miles and serves a population of 91,264. The City of Rochester is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which is done periodically when deemed appropriate by the governing council.

The City of Rochester is governed under a charter adopted August 22, 1904. Policy-making and legislative authority are vested in a governing council consisting of the mayor, the council president and six council members. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the City's administrator and attorney. The City's administrator is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The council is elected on a non-partisan basis. Council members, the president and mayor all serve four-year staggered terms, with four of these positions elected every two years. Six of the council members are elected by ward. The mayor and council president are elected at large.

The City of Rochester provides a full range of services including police and fire protection; construction and maintenance of streets and infrastructure; recreational facilities, library and cultural events; water, sewer, electric, public parking, mass transit and airport services.

The annual budget serves as the foundation for the City of Rochester's financial planning and control. All departments and agencies of the City of Rochester submit requests for appropriation to the city administrator in August of each year. The city administrator uses these requests as the starting point for developing a proposed budget. The city administrator then provides this proposed budget to the council for review prior to November 15<sup>th</sup>. Work sessions are then held with the council covering each department budget. The council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than December 31, the close of the City of Rochester's fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations within a department. Transfers of appropriations between funds, however, require the special approval of the city council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 28 as part of the basic financial statements for the governmental funds. For governmental funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 80.

## CITY OF ROCHESTER, MINNESOTA

### FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Rochester operates.

**Local economy.** The third largest City in Minnesota, Rochester is located 78 miles southeast of Minneapolis and St. Paul. Rochester's strong economy is built around world-renowned health care, cutting-edge technology, agriculture and agribusiness. As home to the Mayo Clinic and IBM Rochester, the City has developed into an economic growth center and the cultural hub of southeastern Minnesota. Its many recreational and cultural activities draw people from southeastern Minnesota and northern Iowa. Add these benefits to a low crime rate and an exceptional school system and it is easy to see why *Money* magazine continues to rank Rochester in the top places to live.

Continued strength in the health care sector and the considerable stability in local technology employers, despite the retrenchment nationally in that sector, combine to provide continued employment growth in Rochester. The number of jobs here has been growing faster than the national average and the local unemployment rate has lingered below national and statewide marks. Ending the first quarter of 2003 up slightly to 4.0 percent, Rochester's unemployment rate compares favorably to the state and US averages of 4.9 and 6.2 percent. The region (which includes Rochester and the surrounding unincorporated area within the same county) has an employed labor force of approximately 86,200. While the City has followed the national trend in its loss of manufacturing jobs, one local economist feels this "bottomed out about a year and a half ago." Jobs in health services and education were the fastest growing among Rochester area industries in 2002, due largely to continued expansion of Mayo Clinic and new business start-ups. During the first quarter of 2003, for example, new business filings were up 150 percent over a year ago with 215 new businesses filed in this quarter alone. With first quarter commercial building permits up 11.5 percent over last year's number and totaling nearly \$71 million, Rochester's economy continues on a growth track.

**Long-term financial planning.** The Rochester council is directing City staff on numerous projects that will affect the growth of the City. A partial list includes:

- Highway 52 reconstruction. Billed as the largest single highway project in Minnesota's history, the \$113 million expansion and reconstruction of the major corridor through Rochester will employ hundreds of workers over the next four years and spawn development and redevelopment along the new frontage roads and bridge intersections.
- Water Quality Project. The \$22 million in sales tax monies allocated toward extending sanitary sewer and water lines to parcels adjacent to the City that had failing septic systems is continuing through this year and the next. In addition to the additional tax base provided by annexation of these developed properties, the project is providing for the development of many in-fill areas that were previously not able to be developed without this infrastructure.
- Highway 63 South Interchange. The council has directed staff to work with the State of Minnesota in the development of interchanges at the 48<sup>th</sup> Street and possibly 40<sup>th</sup> Street intersections of Highway 63 South. This will provide needed access infrastructure to allow planned large retail developments in the open lands adjacent to these intersections.

## CITY OF ROCHESTER, MINNESOTA

### Long-term financial planning (continued).

- Cascade Lake Development. The city has purchased some properties, provided for the relocation of power lines, obtained easements and accepted development plans for the gravel mining and eventual development of what will become the largest lake in the area. With adjacent public parkland and a public bike trail surrounding the lake this project is shaping up to become a significant attraction for both new residential development, and for all the citizens of Rochester to enjoy.
- Storm Water Utility. The new regulations on water quality have moved staff to propose the creation of a storm water utility for Rochester that will collect monies from property owners based upon impervious surface of parcels and use the monies to fund regional storm water pond construction and other runoff water quality improvement measures.
- Electric System Improvements. The Rochester Public Utility (RPU) issued \$11.275 million in revenue bonds during 2002 to fund planned improvements in the electric system infrastructure to provide for the continued expansion in RPU's service area.
- Waste Water Treatment Plant Expansion. City staff is exploring options to meet the ever-growing capacity demands at the City's wastewater treatment plant. Current estimates suggest an expansion costing approximately \$32 million to be constructed over the next four years.

**Cash management policies and practices.** Cash temporarily idle during the year was invested in short-term government money market accounts, commercial paper, obligations of the U.S. Treasury and its agencies, and municipal bonds. The maturities of the investments range from 30 days to 22 years with an average maturity of 2.2 years. Investment income includes appreciation in the fair value of investments. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the government intends to hold to maturity.

**Risk management.** The City maintains a self-insurance program for employee group health coverage and workers' compensation and a high deductible policy on property and casualty coverage. The group health program is limited to losses of \$225,000 per claim with a variable annual aggregate, and the 2002 workers' compensation exposure is limited to \$700,000 per occurrence, both through the use of stop-loss policies. The City's general and auto liability policies retain a \$100,000 aggregate deductible exposure with a \$1,000,000 statutory limit of coverage. The City recognizes a liability on individual claims when a claim is probable and the amount can be reasonably estimated. In addition the City recognizes an estimated liability on claims that have been incurred but not reported. An indication of the effectiveness of the workers' compensation program is that the premium allocation for workers' compensation for 2002 is estimated to be a factor of 0.10 of the Workers' Compensation Reinsurance Association adjusted pure premium exposure base rate. Health coverage premiums were increased 15% in January of 2001 and 15% for 2002 in response to increased loss experience in this area. Dental premiums were not increased in 2002. Premiums still remain below average market for comparable coverage. Additional information on the City's risk management activity can be found in Note 4:A of the notes to the financial statements.

## CITY OF ROCHESTER, MINNESOTA

**Pension.** Substantially all employees of the City of Rochester are covered by a statewide defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). Employees participated in one of the following plans during 2002:

Public Employees Retirement Fund (PERF), a cost-sharing multiple-employer plan  
Public Employees Police and Fire Fund (PEPFF), a cost-sharing multiple-employer plan

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan. All police officers, fire fighters and peace officers qualifying for membership by statute are covered by the PEPFF. Additional information on the City's pension benefits can be found in Note 4:E. of the notes to the financial statements.

## AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Rochester, Minnesota for its comprehensive annual financial report for the fiscal year ended December 31, 2001. This was the thirty fourth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government must publish an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this report could not be accomplished without the professional, efficient services of many dedicated people. We first express our appreciation to all members of the Finance department who assisted and contributed in preparing the report. We also thank the staff of Smith, Schafer and Associates, Ltd. for their assistance and review of the document. And finally, we acknowledge the Mayor and the members of the Common Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Dale R. Martinson  
Director of Finance



Stevan E. Kvenvold  
City Administrator



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Rochester,  
Minnesota

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2001

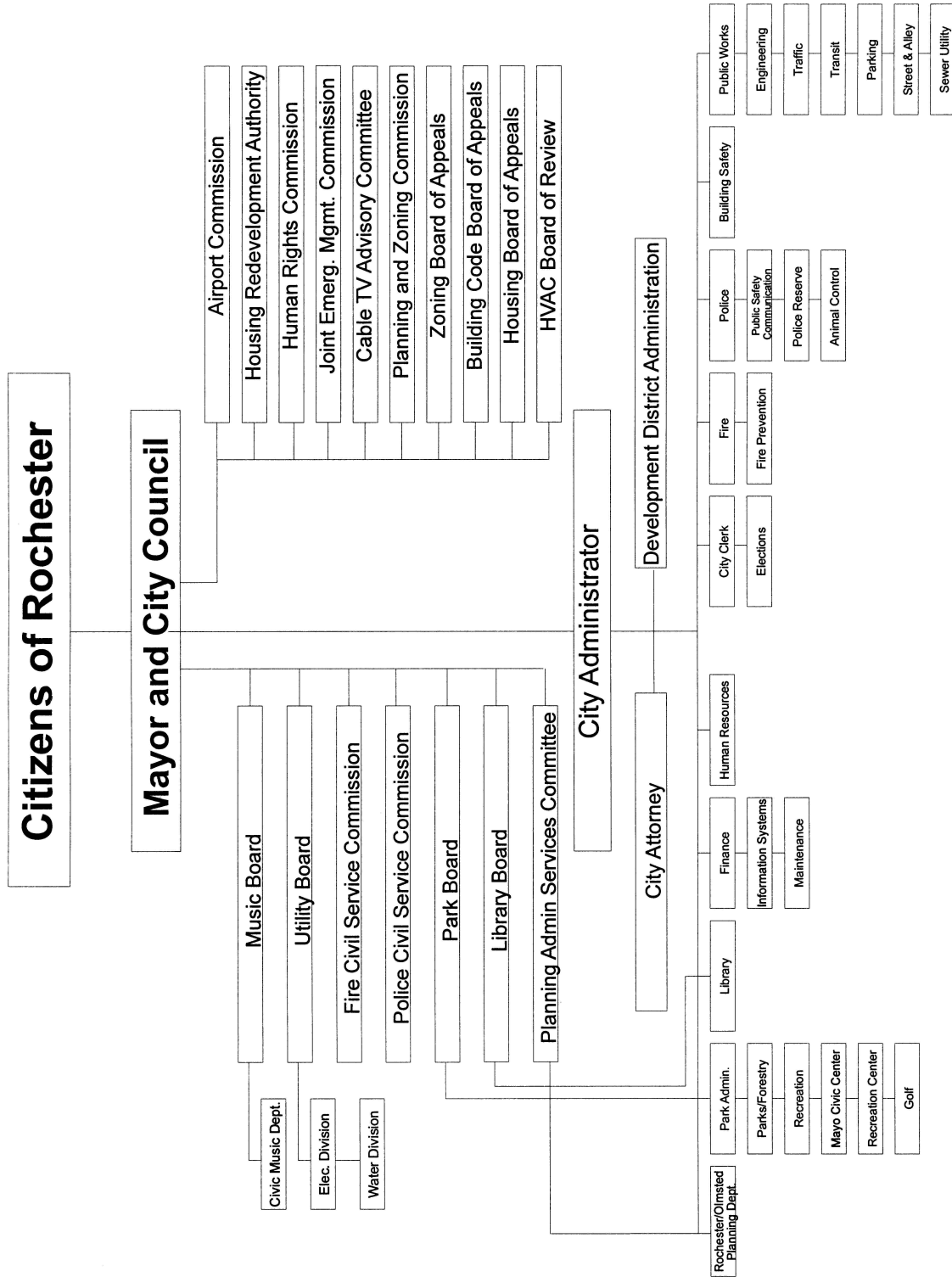
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

# CITY OF ROCHESTER, MINNESOTA ORGANIZATIONAL CHART



**CITY OF ROCHESTER, MINNESOTA  
LIST OF ELECTED AND APPOINTED OFFICIALS**

**MAYOR - COUNCIL**

	Initial Term <u>Commenced</u>	Current Term Expires <u>December 31</u>
Mayor, Charles J. Canfield	1996	2002
Council President, John W. Hunziker	1994	2004
Councilmember First Ward, Dennis L. Hanson	1999	2006
Councilmember Second Ward, Marcia Marcoux	1996	2004
Councilmember Third Ward, Jean S. McConnell	1987	2002
Councilmember Fourth Ward, Walter S. Stobaugh	1994	2004
Councilmember Fifth Ward, Mack R. Evans	1993	2002
Councilmember Sixth Ward, David H. Senjem	1992	2004

**CITY ADMINISTRATOR**

Stevan E. Kvenvold

**DIRECTOR OF FINANCE – TREASURER**

Dale R. Martinson

**OTHER CITY OFFICIALS**

City Attorney, Terry L. Adkins  
City Clerk, Judy Kay Scherr  
Director of Public Works, Richard W. Freese  
Director of Building Safety, Ronald D. Boose  
Chief of Police, Roger L. Peterson  
Fire Chief, David A. Kapler  
Director of Human Resources, Linda F. Gilsrud  
Director Library Services, Audrey Betcher  
Superintendent of Parks and Recreation, Roy Sutherland  
General Manager - Music, Steven J. Schmidt  
General Manager - Public Utilities, Larry J. Koshire  
Superintendent of Water Reclamation Plant, Lyle J. Zimmerman

**CITY OF ROCHESTER, MINNESOTA**  
**FINANCIAL SECTION**  
**DECEMBER 31, 2002**



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Certified Public Accountants and Consultants

Members of American Institute of CPA's,  
Private Companies Practice Section, Minnesota Society of CPA's

Alan L. Schafer, CPA  
Kim A. Mahanna, CPA  
Thomas H. Wente, CPA  
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William D. Frudden, CPA  
Mark G. Paczosa, CPA  
Dean L. Richards, CPA  
Jason P. Boynton, CPA  
Jason C. Miller, CPA

Kimberly A. Cadda, CPA  
Michelle L. Decker, CPA  
Steve E. Erchul, CPA  
James D. Heydon, CPA  
Michael J. Malugani, CPA  
Kerry T. Orton, CPA  
Kelly A. Schwede, CPA

*Retired:*  
Richard J. Smith, CPA

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members  
of the City Council  
**City of Rochester, Minnesota**

We have audited the accompanying basic financial statements of the City of Rochester, Minnesota as of and for the year ended December 31, 2002, as listed in the Financial Section of the Table of Contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the City of Rochester, Minnesota as of December 31, 2002, and the results of its activities, operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The City has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, and No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, for the year ended December 31, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2003 on our consideration of the City of Rochester, Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City taken as a whole. The combining and individual fund financial statements and schedules listed in the Financial Section of the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Rochester, Minnesota. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the Introductory and Statistical Section is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Rochester, Minnesota. This information has not been subjected to any audit procedures and, accordingly, we express no opinion on it.

*Smith, Schaefer and Associates, Ltd.*

Rochester, Minnesota  
June 12, 2003

## **CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Rochester, Minnesota, we offer readers of the City of Rochester's financial statements this narrative overview and analysis of the financial activities of the City of Rochester for the fiscal year ended December 31, 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i - v of this report.

### **FINANCIAL HIGHLIGHTS**

- The assets of the City of Rochester exceeded its liabilities at the close of the most recent fiscal year by \$482,765,007 (*net assets*). Of this amount, \$108,105,189 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.
- The City's total net assets increased by \$44,839,175.
- As of the close of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$102,245,993. Approximately 40 percent of this total amount, or \$41,167,905 is available for use within the City's designations and policies.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$15,108,702 or 37 percent of total general fund expenditures.
- The City of Rochester increased total outstanding debt obligations by \$11,196,301 during the current fiscal year.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the City of Rochester's basic financial statements. The City of Rochester's basic financial statements comprise three components:

1. Government-wide financial statements, providing information for the City as a whole.
2. Fund financial statements, providing detailed information for the City's significant funds.
3. Notes to the financial statements, providing additional information that is essential to understanding the government-wide and fund statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

Additional explanation of these sections of the financial statements follows.



## CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Rochester's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Rochester's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Rochester is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned, but not used, compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Rochester that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Rochester include general government, public safety, public works, airport, library, economic development/tourism, transit, culture, parks and recreation and community reinvestment. The business-type activities of the City of Rochester include parking, municipal electric and water utility, and the sewer utility. The electric and water utilities, comprising the Rochester Public Utilities (RPU), are under the direction of the Board of Public Utilities.

The government-wide financial statements can be found on pages 19-21 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Rochester, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Rochester can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

## CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Rochester maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the construction improvement capital projects fund, both of which are considered to be major funds. Data from the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Rochester adopts an annual appropriated budget for its general fund and certain special revenue funds. Budgetary comparison statements have been provided for the general fund (pages 28-29) and the special revenue funds (pages 84-89) to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 24-29 of this report.

***Proprietary funds.*** The City of Rochester maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Rochester uses enterprise funds to account for its parking, electric, water and sewer utilities. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Rochester's various functions. The City of Rochester uses internal service funds to account for its fleet of vehicles, its risk management program, and for its management information systems. Because all of these services predominately benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the parking, electric, water and sewer utilities, all of which are considered to be major funds of the City of Rochester. Conversely, all three internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 30-37 of this report.

## **CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 40-76 of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds can be found on pages 80-95 of this report.

### **IMPORTANT REMINDERS:**

**Comparative Data.** Because this is the first year of presenting the City's financial statements under the new standard, comparison to the prior year is not possible. In subsequent years, this section will discuss and analyze significant differences.

**Infrastructure Assets.** While the City of Rochester is implementing GASB Statement #34 for its fiscal year ended December 31, 2002, the City is deferring implementation of the retroactive infrastructure portion for general government activities until a final revaluation is completed. Historically, governmental fixed assets, particularly infrastructure assets, have only been accounted for using the current financial resources (budgeted resources) method, and have not been expensed annually through depreciation or accounted for otherwise. Additionally, significant infrastructure assets have been constructed by developers and contributed to the City over the years but have never been recorded. We are currently undertaking a project to inventory and value all of our retroactive infrastructure systems over the allowable three-year period and will include these assets in the financial statements as completed. Nonetheless, the City of Rochester has significant reserves in the capital project funds and an ongoing program for repairs, reconditioning, and replacement of these assets with annual funding sources continually earmarked for these specific purposes. All 2002 and future acquisitions of infrastructure assets have and will be recorded under the new reporting model.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Rochester, assets exceeded liabilities by \$482,765,007 at the close of the most recent fiscal year.

By far the largest portion of the City of Rochester's net assets (67 percent) reflects its investment in capital assets (e.g. land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Rochester uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Rochester's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

# CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

## City of Rochester's Net Assets

	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 137,584,007	\$ 61,115,631	\$ 198,699,638
Capital assets	<u>206,347,169</u>	<u>196,368,578</u>	<u>402,715,747</u>
Total assets	<u>343,931,176</u>	<u>257,484,209</u>	<u>601,415,385</u>
Long-term liabilities outstanding	43,420,799	57,138,869	100,559,668
Other liabilities	<u>8,467,061</u>	<u>9,623,649</u>	<u>18,090,710</u>
Total liabilities	<u>51,887,860</u>	<u>66,762,518</u>	<u>118,650,378</u>
Net assets:			
Invested in capital assets, net of related debt	168,724,953	153,952,827	322,677,780
Restricted	51,472,992	509,046	51,982,038
Unrestricted	<u>71,845,371</u>	<u>36,259,818</u>	<u>108,105,189</u>
Total net assets	<u>\$ 292,043,316</u>	<u>\$ 190,721,691</u>	<u>\$ 482,765,007</u>

A portion of the City of Rochester's net assets (11 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$108,105,189) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Rochester is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its business-type activities.

**Governmental activities.** Governmental activities increased the City of Rochester's net assets by \$37,827,637, accounting for 84 percent of the total growth in the net assets of the City of Rochester. The most significant change in governmental net assets is due to the effect of accounting for net assets under the full accrual basis. Under full accrual accounting, current year infrastructure capital outlay, which was funded during the year, will be expensed over its useful life. Additionally, developers contributed significant infrastructure assets that were recognized as revenue in the current year.

**Business-type activities.** Business-type activities increased the City of Rochester's net assets by \$7,011,538 accounting for 16 percent of the total growth in the City's net assets. The City's electric utility contributed the most significant portion of that increase, or \$5,461,154.

**CITY OF ROCHESTER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

A condensed version of the Statement of Activities follows:

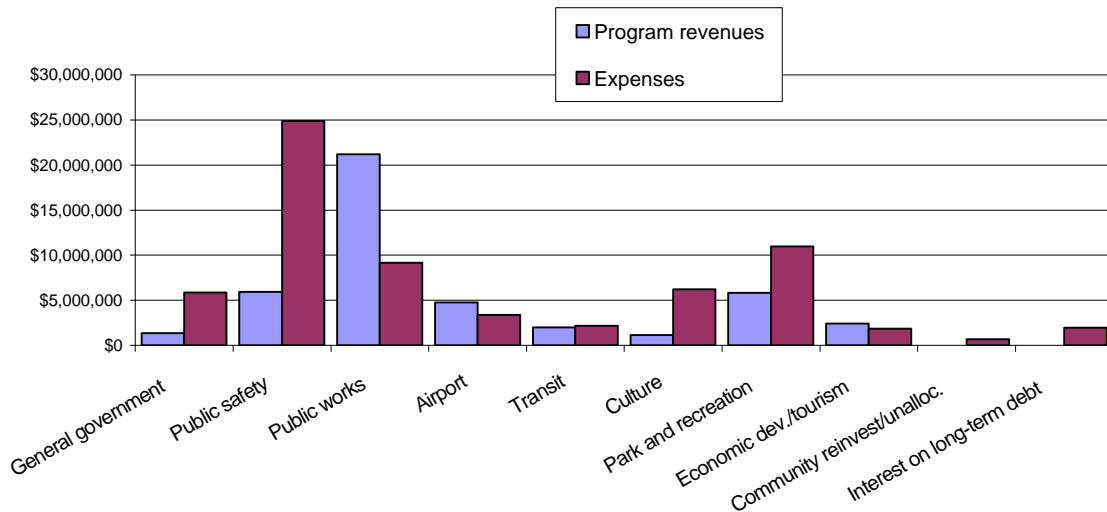
**City of Rochester's Change in Net Assets**

	Governmental Activities	Business-Type Activities	Total
Revenue:			
Program revenues:			
Charges for services	\$ 12,182,673	\$ 108,729,957	\$ 120,912,630
Operating grants and contributions	5,638,107	6,922	5,645,029
Capital grants and contributions	26,777,358	1,339,950	28,117,308
General revenues:			
Property taxes	20,474,967	229,529	20,704,496
Other taxes	14,050,149		14,050,149
Grants and contributions not restricted to specific programs	11,798,019	32,939	11,830,958
Other	5,308,676	1,654,168	6,962,844
Total revenues	<u>96,229,949</u>	<u>111,993,465</u>	<u>208,223,414</u>
Expenses:			
General government	5,851,253		5,851,253
Public safety	24,902,138		24,902,138
Public works	9,151,080		9,151,080
Airport	3,361,247		3,361,247
Transit	2,147,409		2,147,409
Culture	6,205,147		6,205,147
Park and recreation	10,965,066		10,965,066
Economic development/tourism	1,822,976		1,822,976
Community reinvestment/unallocated	669,016		669,016
Interest on long-term debt	1,949,974		1,949,974
Parking		2,846,621	2,846,621
Electric		80,739,625	80,739,625
Water		4,280,928	4,280,928
Sewer		8,491,759	8,491,759
Total expenses	<u>67,025,306</u>	<u>96,358,933</u>	<u>163,384,239</u>
Increase in net assets before transfers	29,204,643	15,634,532	44,839,175
Transfers	8,622,994	(8,622,994)	
Increase in net assets	37,827,637	7,011,538	44,839,175
Net assets, 1/1/02	<u>254,215,679</u>	<u>183,710,153</u>	<u>437,925,832</u>
Net assets, 12/31/02	<u>\$ 292,043,316</u>	<u>\$ 190,721,691</u>	<u>\$ 482,765,007</u>

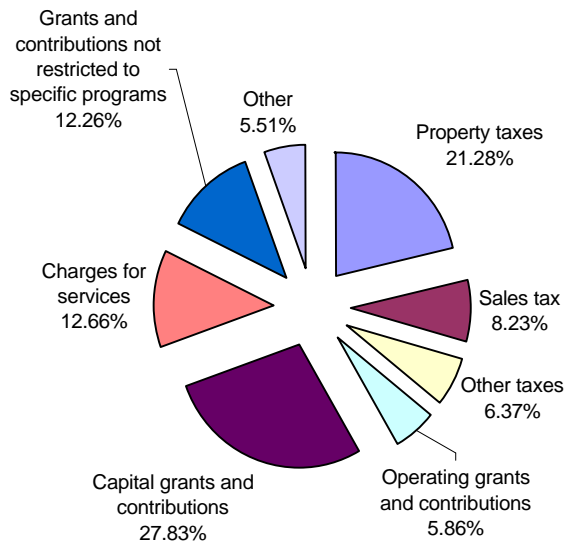
## CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

Below are specific graphs that provide comparisons of the governmental activities direct program revenues with their expenditures. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.

### Expenses and Program Revenues - Governmental Activities



### Revenues by Source - Governmental Activities

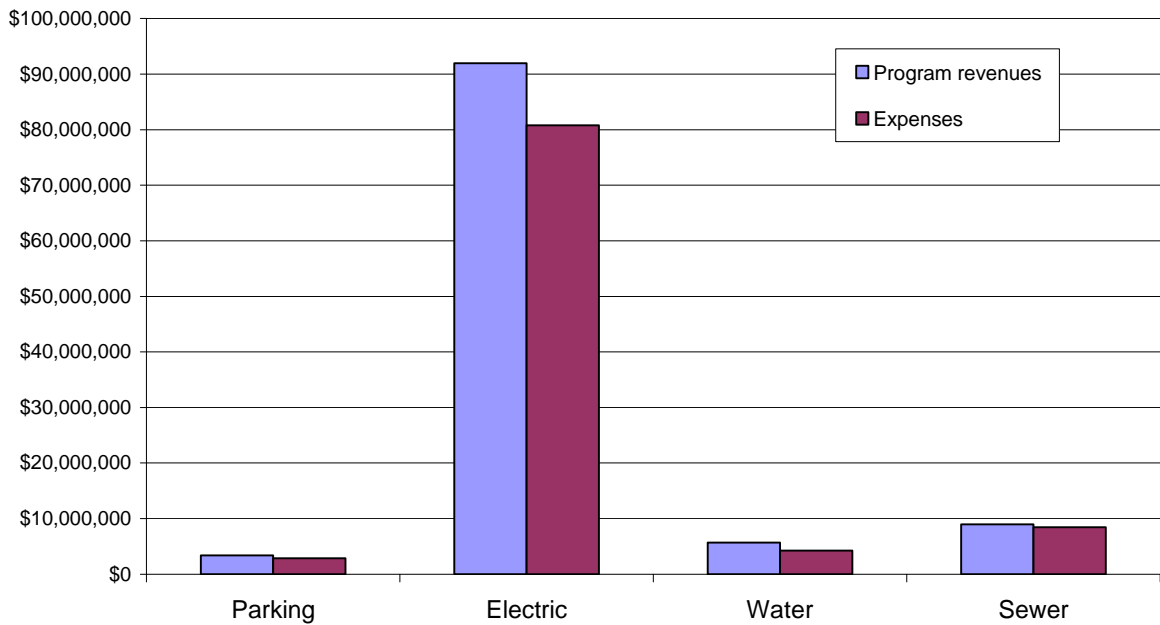




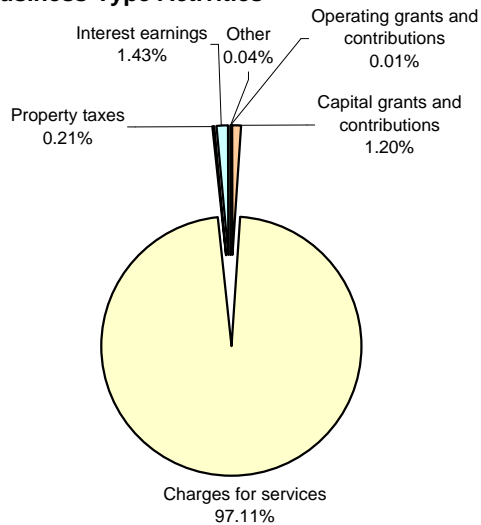
## CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following graphs relate the various business-type activities' program revenues with their expenditures. Since all four of these activities require significant physical assets to operate, any excess revenues are held for planned capital expenditures to keep pace with growing demand for services.

**Expenses and Program Revenues - Business-Type Activities**



**Revenues by Source - Business-Type Activities**



## CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

### Financial Analysis of the Government's Funds

As noted earlier, the City of Rochester uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City of Rochester's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Rochester's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Rochester's governmental funds reported combined ending fund balances of \$102,245,993, an increase of \$1,655,026. Approximately 40 percent of this total amount, or \$41,167,905, constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of this fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$9,317,523), 2) to repay interfund advances or other debt (\$5,929,293), or 3) to fund specific capital projects or programs as obligated by statute or other regulation (\$45,831,272).

The general fund is the chief operating fund of the City of Rochester. At the end of the current fiscal year, unreserved fund balance of the general fund was \$15,108,702 while total fund balance fell slightly to \$16,108,970. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 37 percent of total general fund expenditures, while total fund balance represents 40 percent of that same amount.

The general fund's total fund balance decreased by \$309,714 during the current fiscal year. This year's decrease was primarily due to a budgeted \$1.5 million equity transfer to the capital projects funds to provide for needed road improvements. Revenues met or exceeded budget projections in most all cases and expenditures were at or below planned levels. Were it not for this equity transfer, fund balance in the general fund would have grown by nearly \$1.2 million during the year.

The library fund decreased its fund balance by \$78,464 for the year as it spent \$105,475 of its previously received gifts appropriations. The recreation fund increased its fund balance by \$98,286 as its charges for services exceeded budget amounts and total expenditures came in under budget. The airport fund increased its total fund balance by \$228,997 for the year to \$2,768,891.

The debt service funds have a total fund balance of \$3,056 all of which is reserved for the payment of debt service. This fund balance remained essentially unchanged for the year, as transfers in from other funds provided monies for all debt service payments.

The construction improvement fund increased fund balance by \$1,666,195 despite total expenditures on projects of \$31,122,527. This increase is largely due to receipt of sales tax revenues that are being held for approved projects.

## **CITY OF ROCHESTER, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Proprietary funds.** The City of Rochester's proprietary funds statements found on pages 30 - 37 provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted assets in the respective proprietary funds are Electric – \$13,669,570, Water -- \$1,866,491, Sewer - \$11,767,248 and Parking - \$9,179,587. All but the sewer utility fund had increases in total net assets for the year. The sewer utility fund's decrease of \$95,790 was due to a transfer of \$526,260 to capital projects funds for sewer main construction.

Rates were increased in all proprietary funds during 2002. The electric utility's rates were increased an average of 3 percent during fiscal year 2002. These rate increases were necessary to fund increased operating expenditures and to finance expansion in the system.

The water utility's rates were increased an average of 4 percent during 2002 as the utility took on all maintenance and repair of existing water lines and the City ended its practice of using special assessments to recover these costs.

The parking fund's rate increases varied widely by type of parking space as the City attempted to incent monthly parking contract holders to utilize ramps further from the downtown core thereby freeing up those spaces for short-term visitors and retail customers. Some rates were increased as much as 25 percent.

The sewer utility's rates were increased for fiscal year 2002 by an average of 2.5 percent as the utility continued to plan for its major plant expansion and the anticipated debt service required to repay those costs.

### **General Fund Budgetary Highlights**

The City approved the 2002 general fund budget anticipating a reduction in general fund reserves of \$1.5 million, primarily due to the planned transfer to the capital improvements program. The City amended its budget to recognize additional unplanned obligations during the year and partially offset this with additional revenue streams.

Differences between the original budget and the final budget can be briefly summarized as follows:

- Increase in Nonproperty Taxes and Economic Development Expenditures as the State Legislature approved an increase in the City's lodging tax rate from 3 percent to 4 percent with the increase going to the Rochester Convention and Visitor's Bureau.
- Increase in the Mayor & Council budget and City Attorney budget to cover unplanned expenditures for legal consultants and lobbying efforts, funded by a reduction in the contingency budget.
- Increase in various departmental budgets to appropriate intergovernmental revenues from state or federal grants.
- Increases in culture expenditures and other fee-based activities with offsetting increases to charges for services revenue budgets.

**CITY OF ROCHESTER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

At the close of the year, only \$309,714 of the planned \$1.5 million was actually used from general fund reserves for the capital improvement program. Total expenditures were \$1,634,176 below final budget and actual revenues exceeded final budget by \$563,297.

**Capital Asset and Debt Administration**

**Capital assets.** The City of Rochester's investment in capital assets for its governmental and business-type activities as of December 31, 2002, amounts to \$402,715,747 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City of Rochester's reported investment in capital assets for the current fiscal year was \$49,490,073, or 14 percent. Most of this increase within the governmental activities can be found in the addition of constructed or donated streets and underground infrastructure, or the acquisition of parkland (Cascade Lake and McQuillian Field). Within the business-type activities the most significant increases occurred in acquisition of machinery and equipment as the electric utility completed construction of its peak power generator and the sewer utility increased plant equipment assets.

Again, it should be noted that these totals do not include "retroactive infrastructure", or those roads, bikeways, sewer and water mains acquired prior to this year. Under the new reporting guidelines, these assets will be included in the City's financial statements over the next three years.

**City of Rochester's Capital Assets**

(net of depreciation)

	Governmental Activities	Business-Type Activities	Total
Land	\$ 43,907,978	\$ 5,721,046	\$ 49,629,024
Buildings	72,520,053	62,295,492	134,815,545
Improvements other than buildings	4,807,427		4,807,427
Machinery and equipment	23,451,359	114,481,983	137,933,342
Infrastructure	17,087,574		17,087,574
Construction in progress	44,572,778	13,870,057	58,442,835
Total	<u>\$ 206,347,169</u>	<u>\$ 196,368,578</u>	<u>\$ 402,715,747</u>

Additional information on the City of Rochester's capital assets can be found in Note 3:E. on pages 55-57 of this report.

**Long-term debt.** At the end of the current fiscal year, the City of Rochester had \$92,881,641 in bonds and notes outstanding. Of this amount, \$45,291,641 comprises debt backed by the full faith and credit of the government and \$47,590,000 represents bonds or notes secured solely by specified revenue sources.

**CITY OF ROCHESTER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**City of Rochester's Outstanding Debt**

General Obligation and Revenue Bonds and Notes Payable

	Governmental Activities	Business-Type Activities	Total
General obligation bonds	\$ 6,358,611	\$ 7,620,000	\$ 13,978,611
Revenue bonds	28,383,673	47,390,000	75,773,673
Notes payable	2,929,357	200,000	3,129,357
Total	<u>\$ 37,671,641</u>	<u>\$ 55,210,000</u>	<u>\$ 92,881,641</u>

The City of Rochester's total bonds and notes payable increased by \$11,196,301 during the current fiscal year. New debt included a revenue bond for electric utility system improvements and expansion issued by the Rochester Public Utility in the amount of \$11,275,000. Additionally, the City drew \$2.5 million on its Sales Tax Revenue Note of 2001 for certain roadway improvements. A total of \$2,686,818 in bonds and notes payable was retired during 2002. A more detailed breakdown of these obligations can be found in Note 3:H., beginning on page 61.

The City of Rochester maintains an AAA bond rating on its general obligation bonds from both Moody's Investors Service and Standard and Poors. Rochester Public Utility has received an Aa3 rating from Moody's and an A+ on its Utility Revenue Bonds.

**Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate for the City of Rochester ended the first quarter of 2003 at 4.1 percent, which is at approximately the same level as a year ago. This compares favorably to the state's average unemployment rate of 4.9 percent and the national average rate of 6.4 percent.
- Despite recent manufacturing job loss, Rochester continues to see new construction growth, not only in residential, but also in commercial construction with record or near record levels each month. The City's total market valuation increased by 5 percent due to new construction for taxes payable in 2003.
- Property tax reforms and budget deficits at the state level have significantly impacted government aid payments made to the City. Rochester's state aid was reduced for both 2003 and beyond by approximately \$3.3 million.
- Interest rates have continued to fall over the past few years such that the City's investment portfolio return has been reduced significantly.

**CITY OF ROCHESTER, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

All of these factors were considered in preparing the City of Rochester's budget for the 2003 fiscal year. To deal with both cycles in the economy and to plan for future capital expansion, the City routinely puts aside resources. Expenditure budgets for 2003 were held back and are now being formally amended based on the state's aid reduction. The City will likely utilize some reserves in 2003 and will be looking to reduce some levels of service in 2004 to adjust for these cuts.

**Requests for Information**

This financial report is designed to provide a general overview of the City of Rochester's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Finance Director, 201 4<sup>th</sup> Street SE, Room 204, Rochester, MN 55904.



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**CITY OF ROCHESTER, MINNESOTA**  
**BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

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**CITY OF ROCHESTER, MINNESOTA**  
**STATEMENT OF NET ASSETS**  
December 31, 2002

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,116,040	\$ 13,948,454	\$ 16,064,494
Investments	110,459,382	20,316,200	130,775,582
Receivables (net of allowance for uncollectibles)	16,901,835	6,201,060	23,102,895
Internal balances	983,309	(983,309)	
Due from other governmental units	6,901,257	33,394	6,934,651
Accrued utility revenues		3,164,509	3,164,509
Restricted cash and investments	119,696	12,392,111	12,511,807
Restricted assets		286,658	286,658
Inventory	93,764	5,124,943	5,218,707
Prepaid and other assets	8,724	2,473	11,197
Deferred charges		629,138	629,138
Capital assets, net	206,347,169	196,368,578	402,715,747
Total Assets	<u>343,931,176</u>	<u>257,484,209</u>	<u>601,415,385</u>
<b>LIABILITIES</b>			
Accounts and contracts payable	1,877,590	6,411,603	8,289,193
Deposits payable	1,344,758	407,307	1,752,065
Accrued interest payable	430,162	360,508	790,670
Accrued compensation and payroll taxes	1,852,246	698,773	2,551,019
Accrued claims	2,273,944	190,000	2,463,944
Due to other governmental units	688,361	314,917	1,003,278
Deferred revenue		1,240,541	1,240,541
Noncurrent liabilities:			
Due within one year	22,673,535	3,516,605	26,190,140
Due in more than one year	20,747,264	53,622,264	74,369,528
Total Liabilities	<u>51,887,860</u>	<u>66,762,518</u>	<u>118,650,378</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	168,724,953	153,952,827	322,677,780
Restricted for:			
Airport	3,294,861		3,294,861
CDBG loans	2,869,773		2,869,773
Library	98,273		98,273
Civic music endowment	21,423		21,423
Debt service	3,056	222,388	225,444
Service territory acquisitions		286,658	286,658
Flood control	21,316,861		21,316,861
Sales tax authorized projects	23,868,745		23,868,745
Unrestricted	<u>71,845,371</u>	<u>36,259,818</u>	<u>108,105,189</u>
Total Net Assets	<u>\$ 292,043,316</u>	<u>\$ 190,721,691</u>	<u>\$ 482,765,007</u>

See Notes to the Financial Statements

**CITY OF ROCHESTER, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2002

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
Governmental activities:				
General government	\$ 5,851,253	\$ 489,957	\$ 17,447	\$ 830,355
Public safety	24,902,138	4,059,986	1,799,846	65,600
Public works	9,151,080	362,252	10,895	20,827,011
Airport	3,361,247	2,194,399	212,859	2,347,589
Transit	2,147,409	89,054	1,898,851	19,477
Culture	6,205,147	281,685	856,108	8,832
Park and recreation	10,965,066	4,666,340	53,563	1,095,167
Economic development/tourism	1,822,976	39,000	788,538	1,583,327
Community reinvestment/unallocated	669,016			
Interest on long-term debt	1,949,974			
<b>Total governmental activities</b>	<b>67,025,306</b>	<b>12,182,673</b>	<b>5,638,107</b>	<b>26,777,358</b>
Business-Type activities:				
Parking	2,846,621	3,403,739	6,922	
Electric utility	80,739,625	90,633,880		1,339,950
Water utility	4,280,928	5,707,107		
Sewer utility	8,491,759	8,985,231		
<b>Total business-type activities</b>	<b>96,358,933</b>	<b>108,729,957</b>	<b>6,922</b>	<b>1,339,950</b>
<b>Total</b>	<b>\$ 163,384,239</b>	<b>\$ 120,912,630</b>	<b>\$ 5,645,029</b>	<b>\$28,117,308</b>
General revenues:				
General property taxes				
Tax increments				
Sales tax				
Nonproperty taxes				
Grants and contributions not restricted to specific programs				
Interest earnings				
Net (decrease) in the fair value of investments				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

See Notes to the Financial Statements

FORM A-2

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (4,513,494)		\$ (4,513,494)
(18,976,706)		(18,976,706)
12,049,078		12,049,078
1,393,600		1,393,600
(140,027)		(140,027)
(5,058,522)		(5,058,522)
(5,149,996)		(5,149,996)
587,889		587,889
(669,016)		(669,016)
(1,949,974)		(1,949,974)
<u>(22,427,168)</u>		<u>(22,427,168)</u>
	\$ 564,040	564,040
	11,234,205	11,234,205
	1,426,179	1,426,179
	<u>493,472</u>	<u>493,472</u>
	13,717,896	13,717,896
<u>(22,427,168)</u>	<u>13,717,896</u>	<u>(8,709,272)</u>
20,474,967	229,529	20,704,496
3,052,017		3,052,017
7,921,644		7,921,644
3,076,488		3,076,488
11,798,019	32,939	11,830,958
4,773,255	1,604,523	6,377,778
(179,625)	(37,800)	(217,425)
715,046	87,445	802,491
8,622,994	(8,622,994)	
<u>60,254,805</u>	<u>(6,706,358)</u>	<u>53,548,447</u>
37,827,637	7,011,538	44,839,175
<u>254,215,679</u>	<u>183,710,153</u>	<u>437,925,832</u>
<u>\$ 292,043,316</u>	<u>\$ 190,721,691</u>	<u>\$ 482,765,007</u>



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**CITY OF ROCHESTER, MINNESOTA**  
**FUND FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

**CITY OF ROCHESTER, MINNESOTA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
December 31, 2002

	General	Construction Improvement	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 667,242	\$	\$ 272,599	\$ 939,841
Investments	14,179,398	74,002,984	6,616,900	94,799,282
Accrued interest receivable	292,544	528,100	58,700	879,344
Accounts receivable (net of allowance for uncollectibles)	466,541	1,703,163	944,238	3,113,942
Loans receivable		2,016,003	2,869,773	4,885,776
Taxes receivable delinquent	95,585	318,153	64,632	478,370
Special assessments receivable deferred		7,318,414		7,318,414
Special assessments receivable delinquent	16,903	29,074	4,547	50,524
Utility connection charges receivable deferred		41,165		41,165
Due from other funds	1,114,213	2,990,139	6,364	4,110,716
Due from other governmental units	1,934,968	3,556,488	1,395,613	6,887,069
Advances to other funds	222,395	5,703,842		5,926,237
Prepaid items	8,411		313	8,724
Restricted cash	21,423		98,273	119,696
Inventory	93,764			93,764
<b>TOTAL ASSETS</b>	<b>\$19,113,387</b>	<b>\$98,207,525</b>	<b>\$12,331,952</b>	<b>\$129,652,864</b>
<b>LIABILITIES AND FUND BALANCE</b>				
Liabilities:				
Accounts and contracts payable	\$ 346,221	\$ 1,012,342	\$ 518,883	\$ 1,877,446
Deposits payable	326,405	230,656	269,444	826,505
Accrued payroll and payroll liabilities	1,446,182		388,245	1,834,427
Accrued compensated absences	299,728		56,136	355,864
Due to other funds	285,490	2,890,996	174,757	3,351,243
Due to other governmental units	187,903	219,660	279,693	687,256
Advances from other funds		3,899,915	2,026,322	5,926,237
Deferred revenue	112,488	9,496,453	2,938,952	12,547,893
<b>Total Liabilities</b>	<b>3,004,417</b>	<b>17,750,022</b>	<b>6,652,432</b>	<b>27,406,871</b>
Fund Balance:				
Reserved for:				
Restricted assets	21,423		98,273	119,696
Prepaid items	8,411		313	8,724
Interfund advances	222,395	5,703,842		5,926,237
Encumbrances	748,039	8,529,597	31,163	9,308,799
Debt service			3,056	3,056
Airport		525,970		525,970
Flood control		21,316,861		21,316,861
Sales tax authorized projects		23,868,745		23,868,745
Unreserved, designated	6,132,858		1,430,965	7,563,823
Unreserved, undesignated, reported in:				
General fund	8,975,844			8,975,844
Capital projects fund		20,512,488		20,512,488
Special revenue funds			4,115,750	4,115,750
<b>Total Fund Balance</b>	<b>16,108,970</b>	<b>80,457,503</b>	<b>5,679,520</b>	<b>102,245,993</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$19,113,387</b>	<b>\$98,207,525</b>	<b>\$12,331,952</b>	<b>\$129,652,864</b>

**CITY OF ROCHESTER, MINNESOTA**  
**RECONCILIATION OF NET ASSETS IN THE**  
**GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES**  
**IN THE FUND BASIS FINANCIAL STATEMENTS**

December 31, 2002

Amounts reported for governmental activities in the statement of net assets are different because:

Total governmental fund balances (page 24)		\$ 102,245,993
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental capital assets	\$ 252,273,895	
Less: Accumulated depreciation	<u>(54,864,822)</u>	
		197,409,073
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Delinquent property taxes and special assessments	\$ 528,894	
Deferred special assessments and utility connection agreements	7,359,579	
Loans receivable	<u>4,659,420</u>	
		12,547,893
Internal service funds are used by management to charge the costs of equipment, information technology and insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		
		23,335,454
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds and notes payable	\$ (37,671,641)	
Compensated absences	(5,442,719)	
Accrued interest	(430,162)	
Unamortized bond issuance costs	<u>49,425</u>	
		<u>(43,495,097)</u>
Net assets of governmental activities (page 19)		<u><u>\$ 292,043,316</u></u>

**CITY OF ROCHESTER, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2002

	General	Construction Improvement	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
General property taxes	\$ 10,601,838	\$ 2,270,895	\$ 7,319,838	\$ 20,192,571
Tax increments		1,508,365	1,543,652	3,052,017
Sales tax		6,468,818	1,452,826	7,921,644
Special assessments		1,221,268		1,221,268
Utility connection and availability		1,831,062		1,831,062
Nonproperty taxes	3,076,488			3,076,488
Licenses and permits	2,181,469			2,181,469
Fines and forfeits	490,632			490,632
Intergovernmental revenues	13,621,527	5,767,867	4,439,490	23,828,884
Charges for services	2,415,542	527,805	7,095,030	10,038,377
Contributions in aid of construction		4,384,107		4,384,107
Interest earnings	432,074	3,478,009	223,211	4,133,294
Net increase (decrease) in the fair value of investments	(43,125)	(75,900)	(16,100)	(135,125)
Miscellaneous revenues	223,622	1,109,846	258,474	1,591,942
Total Revenues	<u>33,000,067</u>	<u>28,492,142</u>	<u>22,316,421</u>	<u>83,808,630</u>
<b>EXPENDITURES</b>				
General government	5,207,735			5,207,735
Public safety	23,877,840		73,903	23,951,743
Public works	8,847,715			8,847,715
Airport operations			2,383,311	2,383,311
Transit			1,948,980	1,948,980
Culture	723,586		4,627,973	5,351,559
Park and recreation			8,886,606	8,886,606
Economic development/tourism	1,134,948		685,002	1,819,950
Community reinvestment and unallocated	667,048			667,048
Debt service			3,039,660	3,039,660
Capital outlay		31,122,527		31,122,527
Total Expenditures	<u>40,458,872</u>	<u>31,122,527</u>	<u>21,645,435</u>	<u>93,226,834</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,458,805)</u>	<u>(2,630,385)</u>	<u>670,986</u>	<u>(9,418,204)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan proceeds		2,505,252		2,505,252
Transfers in	8,830,445	7,409,577	127,171	16,367,193
Transfers out	(1,681,354)	(5,618,249)	(499,612)	(7,799,215)
Total other financing sources (uses)	<u>7,149,091</u>	<u>4,296,580</u>	<u>(372,441)</u>	<u>11,073,230</u>
Net change in fund balances	(309,714)	1,666,195	298,545	1,655,026
Fund Balance - beginning	16,418,684	78,791,308	5,380,975	100,590,967
Fund Balance - ending	<u>\$ 16,108,970</u>	<u>\$ 80,457,503</u>	<u>\$ 5,679,520</u>	<u>\$ 102,245,993</u>

**CITY OF ROCHESTER, MINNESOTA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2002

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 26)	\$	1,655,026
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Governmental funds reported capital outlays as expenditures.

However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$	31,122,527
Depreciation expense		<u>(5,070,260)</u>
		26,052,267

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.

12,058,570

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred revenue, December 31, 2002	\$	12,547,893
Deferred revenue, December 31, 2001		<u>(12,720,047)</u>
		(172,154)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences		(230,976)
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Loan proceeds	\$	(2,505,252)
Principal retirement on long-term debt		1,128,951
Change in accrued interest		443
Amortization of bond issuance costs		<u>(39,708)</u>
		(1,415,566)

Internal service funds are used by management to charge the costs of equipment, information technology and insurance to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities

(119,530)

Change in net assets of governmental activities (pages 20 and 21)	\$	<u><u>37,827,637</u></u>
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**CITY OF ROCHESTER, MINNESOTA**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
For the Year Ended December 31, 2002

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes	\$11,941,852	\$ 10,597,329	\$10,601,838	\$ 4,509
Nonproperty taxes	2,800,000	2,921,934	3,076,488	154,554
Licenses and permits	1,909,336	1,909,336	2,181,469	272,133
Fines and forfeits	445,750	472,892	490,632	17,740
Intergovernmental	12,469,615	13,451,954	13,621,527	169,573
Charges for services	2,189,734	2,367,219	2,415,542	48,323
Interest earnings	540,900	540,453	432,074	(108,379)
Net (decrease) in the fair value of investments			(43,125)	(43,125)
Miscellaneous	159,018	175,653	223,622	47,969
Total Revenues	<u>32,456,205</u>	<u>32,436,770</u>	<u>33,000,067</u>	<u>563,297</u>
<b>EXPENDITURES</b>				
Current:				
General Government:				
Mayor and Council	592,268	771,739	739,384	32,355
City Administrator	417,252	417,374	425,514	(8,140)
Development District Administration	226,797	230,563	127,296	103,267
City Clerk	257,133	257,133	229,871	27,262
Elections and Voter Registration	83,644	115,663	124,832	(9,169)
Finance Department	882,435	895,914	896,430	(516)
Information Systems	697,649	697,649	641,617	56,032
City Attorney	761,806	863,180	888,842	(25,662)
Human Resources	697,108	702,585	687,743	14,842
Planning and Zoning	146,550	146,550	132,095	14,455
City Hall Maintenance	381,671	382,402	314,111	68,291
Total General Government	<u>5,144,313</u>	<u>5,480,752</u>	<u>5,207,735</u>	<u>273,017</u>
Public Safety:				
Police Department	11,496,223	11,691,580	11,478,924	212,656
Drug Enforcement Administration		17,861	15,496	2,365
Fire Department	9,881,035	9,934,014	9,546,221	387,793
Fire Hazmat Response Team	20,000	109,927	119,961	(10,034)
Building Safety	1,974,019	1,974,259	1,958,398	15,861
Animal Control	215,324	215,670	221,928	(6,258)
Police Reserve	20,055	24,844	20,512	4,332
Flood Control	315,911	363,674	363,689	(15)
Emergency Mgmt/Safety Council	152,711	152,711	152,711	
Total Public Safety	<u>24,075,278</u>	<u>24,484,540</u>	<u>23,877,840</u>	<u>606,700</u>

**CITY OF ROCHESTER, MINNESOTA**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)**  
For the Year Ended December 31, 2002

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
<b>EXPENDITURES (continued)</b>				
Current:				
Public Works:				
Engineering	\$ 2,939,278	\$ 2,941,776	\$ 2,976,017	\$ (34,241)
Traffic Engineer	968,485	1,024,849	949,790	75,059
Street and Alley	4,483,349	4,486,218	4,121,707	364,511
City Lighting	762,531	764,193	800,201	(36,008)
Total Public Works	<u>9,153,643</u>	<u>9,217,036</u>	<u>8,847,715</u>	<u>369,321</u>
Culture:				
Art Center/Theatre	147,000	147,000	156,096	(9,096)
Music Department	502,815	579,173	567,490	11,683
Total Culture	<u>649,815</u>	<u>726,173</u>	<u>723,586</u>	<u>2,587</u>
Economic development/tourism	<u>799,520</u>	<u>1,343,475</u>	<u>1,134,948</u>	<u>208,527</u>
Community reinvestment and unallocated	<u>768,639</u>	<u>841,072</u>	<u>667,048</u>	<u>174,024</u>
Total Expenditures	<u>40,591,208</u>	<u>42,093,048</u>	<u>40,458,872</u>	<u>1,634,176</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(8,135,003)</u>	<u>(9,656,278)</u>	<u>(7,458,805)</u>	<u>2,197,473</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	8,028,300	8,028,300	8,830,445	802,145
Transfers out	<u>(1,500,000)</u>	<u>(1,500,000)</u>	<u>(1,681,354)</u>	<u>(181,354)</u>
Total other financing sources	<u>6,528,300</u>	<u>6,528,300</u>	<u>7,149,091</u>	<u>620,791</u>
Net change in fund balances	(1,606,703)	(3,127,978)	(309,714)	2,818,264
Fund Balance - beginning	<u>16,418,684</u>	<u>16,418,684</u>	<u>16,418,684</u>	
Fund Balance - ending	<u>\$ 14,811,981</u>	<u>\$ 13,290,706</u>	<u>\$ 16,108,970</u>	<u>\$ 2,818,264</u>

**CITY OF ROCHESTER, MINNESOTA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET ASSETS**  
December 31, 2002

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 312,730	\$ 10,853,274	\$ 2,266,569
Investments	8,840,200		
Accrued interest receivable	80,600	219,176	
Accounts receivable	97,600	5,249,514	456,221
Accrued utility revenues		3,071,718	92,791
Inventory, material, supplies and fuel		4,966,269	155,367
Due from other funds			
Due from other governmental units	1,034		
Restricted assets		286,658	
Restricted cash		12,392,111	
Other assets		484	
Total Current Assets	<u>9,332,164</u>	<u>37,039,204</u>	<u>2,970,948</u>
Noncurrent Assets:			
Machinery and equipment			
Plant in service	27,823,810	181,840,174	23,289,701
Construction work in process	6,353	9,014,036	1,908,513
Less: Accumulated depreciation	(9,428,237)	(71,648,569)	(6,575,277)
Net property and equipment	<u>18,401,926</u>	<u>119,205,641</u>	<u>18,622,937</u>
Deferred charges and other assets		629,138	
Total Noncurrent Assets	<u>18,401,926</u>	<u>119,834,779</u>	<u>18,622,937</u>
Total Assets	<u>27,734,090</u>	<u>156,873,983</u>	<u>21,593,885</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts and contracts payable	13,504	5,382,027	821,742
Deposits payable	71,680	260,532	485
Accrued interest payable		337,191	
Accrued compensation and payroll taxes	10,150	522,728	60,839
Accrued compensated absences	44,363	1,041,439	107,641
Due to other funds	256	1,344,889	
Due to other governmental units	12,624	294,478	526
Accrued claims			
Bonds payable		1,075,000	
Notes payable		200,000	
Total Current Liabilities	<u>152,577</u>	<u>10,458,284</u>	<u>991,233</u>
Noncurrent Liabilities:			
Bonds payable		46,315,000	
Unamortized bond discount and issue costs		(300,155)	
Accrued compensated absences		761,181	58,219
Accrued claims		181,000	9,000
Deferred revenue		1,194,536	46,005
Total Noncurrent Liabilities		<u>48,151,562</u>	<u>113,224</u>
Total Liabilities	<u>152,577</u>	<u>58,609,846</u>	<u>1,104,457</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	18,401,926	84,307,909	18,622,937
Restricted for:			
Debt service			
Service territory acquisitions		286,658	
Unrestricted	9,179,587	13,669,570	1,866,491
Total Net Assets	<u>\$ 27,581,513</u>	<u>\$ 98,264,137</u>	<u>\$ 20,489,428</u>

Amounts reported by business-type activities in the statement of net assets (page 19) are different because:

Certain internal service fund assets and liabilities are included in business-type activities.

Net assets of business-type activities

FORM C-1

Enterprise Funds		Governmental
Sewer Utility		Activities-
Fund	Totals	Internal Service
		Funds
\$ 515,881	\$ 13,948,454	\$ 1,176,199
11,476,000	20,316,200	15,660,100
95,500	395,276	134,300
2,449	5,805,784	
	3,164,509	
3,307	5,124,943	
883,161	883,161	758
32,360	33,394	14,188
	286,658	
	12,392,111	
1,989	2,473	
13,010,647	62,352,963	16,985,545
		16,537,423
88,818,007	321,771,692	
2,941,155	13,870,057	
(51,621,088)	(139,273,171)	(7,599,327)
40,138,074	196,368,578	8,938,096
	629,138	
40,138,074	196,997,716	8,938,096
53,148,721	259,350,679	25,923,641
194,330	6,411,603	144
74,610	407,307	518,253
23,317	360,508	
105,056	698,773	17,819
318,162	1,511,605	
298,247	1,643,392	
7,289	314,917	1,105
		1,396,944
730,000	1,805,000	
	200,000	
1,751,011	13,353,105	1,934,265
6,890,000	53,205,000	
(101,981)	(402,136)	
	819,400	
	190,000	877,000
	1,240,541	
6,788,019	55,052,805	877,000
8,539,030	68,405,910	2,811,265
32,620,055	153,952,827	8,938,096
222,388	222,388	
	286,658	
11,767,248	36,482,896	14,174,280
\$ 44,609,691	190,944,769	\$ 23,112,376
	(223,078)	
	\$ 190,721,691	

**CITY OF ROCHESTER, MINNESOTA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET ASSETS**  
For the Year Ended December 31, 2002

		Business-Type Activities -	
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Revenues:			
Sales and charges for services	\$ 3,403,739	\$	\$ 5,377,221
Sales and charges for services, pledged as security for revenue bonds		89,294,557	
Miscellaneous		1,339,323	329,886
Total Operating Revenues	3,403,739	90,633,880	5,707,107
Operating Expenses:			
Purchased power		53,403,133	
Maintenance and operations	1,924,397	21,142,923	3,660,331
Depreciation	897,273	4,179,205	602,890
Total Operating Expenses	2,821,670	78,725,261	4,263,221
Operating Income (Loss)	582,069	11,908,619	1,443,886
Nonoperating Revenues (Expenses):			
General property taxes			
Intergovernmental revenues	7,499		
Interest earnings	339,841	762,139	80,992
Net (decrease) in the fair value of investments	(9,300)		
Interest and fiscal charges		(1,183,146)	
(Loss) on disposal of property	(19,011)		
Other income (expense)	1,793	(673,283)	92
Total Nonoperating Revenues (Expenses)	320,822	(1,094,290)	81,084
Income Before Transfers and Contributions	902,891	10,814,329	1,524,970
Capital contributions		1,339,950	
Transfers in	1,850		
Transfers out	(254,951)	(6,693,125)	(305,508)
Change in net assets	649,790	5,461,154	1,219,462
Total Net Assets - Beginning of Year	26,931,723	92,802,983	19,269,966
Total Net Assets - End of Year	\$ 27,581,513	\$ 98,264,137	\$ 20,489,428

Amounts reported by business-type activities in the statement of activities (page 21) are different because:

Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities.

Change in net assets of business-type activities

FORM C-2

Enterprise Funds		Governmental
Sewer Utility		Activities-
Fund	Totals	Internal Service
		Funds
\$	\$ 8,780,960	\$ 8,896,148
8,944,611	98,239,168	
40,620	1,709,829	
8,985,231	108,729,957	8,896,148
	53,403,133	
5,076,108	31,803,759	8,070,360
2,862,630	8,541,998	1,758,315
7,938,738	93,748,890	9,828,675
1,046,493	14,981,067	(932,527)
229,529	229,529	
32,362	39,861	
421,551	1,604,523	643,060
(28,500)	(37,800)	(44,500)
(356,979)	(1,540,125)	
(154,546)	(173,557)	(66,268)
85,560	(585,838)	2,611
228,977	(463,407)	534,903
1,275,470	14,517,660	(397,624)
	1,339,950	
	1,850	190,600
(1,371,260)	(8,624,844)	(70,026)
(95,790)	7,234,616	(277,050)
44,705,481		23,389,426
\$ 44,609,691		\$ 23,112,376

(223,078)

\$ 7,011,538

**CITY OF ROCHESTER, MINNESOTA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2002

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Cash Flows From Operating Activities:			
Cash received from customers	\$ 3,285,391	\$ 87,047,504	\$ 5,273,740
Cash received from other City funds		3,206,655	425,834
Cash received from employees			
Cash paid to employees	(205,837)	(12,006,289)	(1,266,436)
Cash paid to suppliers	(1,817,331)	(60,871,455)	(2,329,251)
Other income	1,793		
Net Cash Provided By Operating Activities	<u>1,264,016</u>	<u>17,376,415</u>	<u>2,103,887</u>
Cash Flows From Noncapital Financing Activities:			
General property taxes			
Intergovernmental revenues	7,499		
Transfers in	1,850		
Transfers out	(254,951)	(6,725,020)	(307,160)
Net Cash Provided By (Used In)			
Noncapital Financing Activities	<u>(245,602)</u>	<u>(6,725,020)</u>	<u>(307,160)</u>
Cash Flows From Capital and Related Financing Activities:			
Capital contributions		1,339,950	
Proceeds from the sale of property			
Proceeds from issuance of revenue bonds		11,194,853	
Principal payments on bonds		(719,853)	
Interest and fiscal charges on bonds		(1,858,982)	
Issuance costs of revenue bonds		(129,737)	
Facilities and service territory acquisition		(512,634)	
Acquisition of capital assets	(373,093)	(21,599,575)	(1,838,051)
Other receipts			
Net Cash (Used In) Capital and			
Related Financing Activities	<u>(373,093)</u>	<u>(12,285,978)</u>	<u>(1,838,051)</u>
Cash Flows From Investing Activities:			
Investment income	353,241	710,740	80,992
Service territory escrow payments		(256,121)	
Funds released from service territory escrow		794,660	
Net (increase) decrease in investments	(1,375,416)		
Net Cash Provided By (Used In) Invested Activities	<u>(1,022,175)</u>	<u>1,249,279</u>	<u>80,992</u>
Net Increase (Decrease) in Cash and			
Cash Equivalents	(376,854)	(385,304)	39,668
Cash and Cash Equivalents, Beginning of Year	689,584	23,630,689	2,226,901
Cash and Cash Equivalents, End of Year	<u>\$ 312,730</u>	<u>\$ 23,245,385</u>	<u>\$ 2,266,569</u>
Classified As:			
Cash and Cash Equivalents	\$ 312,730	\$ 10,853,274	\$ 2,266,569
Restricted Cash		12,392,111	
Total Cash and Cash Equivalents, End of Year	<u>\$ 312,730</u>	<u>\$ 23,245,385</u>	<u>\$ 2,266,569</u>

See Notes to the Financial Statements

FORM C-3

Enterprise Funds		Governmental Activities- Internal Service Funds
Sewer Utility Fund	Totals Current Year	
\$ 9,102,926	\$ 104,709,561	\$ 7,496,329
	3,632,489	1,384,873
(2,059,846)	(15,538,408)	
(2,841,670)	(67,859,707)	(8,256,105)
85,560	87,353	
4,286,970	25,031,288	625,097
229,529	229,529	
32,362	39,861	
	1,850	125,042
(1,371,260)	(8,658,391)	(70,026)
(1,109,369)	(8,387,151)	55,016
	1,339,950	
		63,587
	11,194,853	
(655,000)	(1,374,853)	
(357,882)	(2,216,864)	
	(129,737)	
	(512,634)	
(2,138,637)	(25,949,356)	(2,073,456)
		2,737
(3,151,519)	(17,648,641)	(2,007,132)
458,851	1,603,824	709,260
	(256,121)	
	794,660	
(946,667)	(2,322,083)	229,353
(487,816)	(179,720)	938,613
(461,734)	(1,184,224)	(388,406)
977,615	27,524,789	1,564,605
\$ 515,881	\$ 26,340,565	\$ 1,176,199
\$ 515,881	\$ 13,948,454	\$ 1,176,199
	12,392,111	
\$ 515,881	\$ 26,340,565	\$ 1,176,199



**CITY OF ROCHESTER, MINNESOTA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
For the Year Ended December 31, 2002

Reconciliation of Operating Income to Net Cash  
Provided By Operating Activities

	Business-Type Activities -		
	Parking Fund	Electric Utility Fund	Water Utility Fund
Operating Income (Loss)	\$ 582,069	\$ 11,908,619	\$ 1,443,886
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation expense	897,273	4,179,205	602,890
Other income (expense)	1,793	(673,283)	92
Other		942,107	
(Increase) Decrease In:			
Accounts receivable	(97,600)	(468,669)	(58,804)
Accrued utility revenues		762,815	8,796
Inventory		1,003,055	(22,580)
Prepaid expenses		(3,140)	
Due from other funds			
Due from other governmental units	(107)	402,933	
Other assets			
Increase (Decrease) In:			
Accounts and contracts payable, operations	(110,665)	(3,785,143)	234,462
Deposits payable	(20,641)	(9,356)	240
Accrued expenses and other liabilities	12,939	3,399,528	(123,372)
Deferred revenue		(60,778)	24,358
Accrued claims		(26,000)	(6,000)
Due to other funds	7	(225,439)	
Due to other governmental units	(1,052)	29,961	(81)
Net Cash Provided By Operating Activities	<u>\$ 1,264,016</u>	<u>\$ 17,376,415</u>	<u>\$ 2,103,887</u>
Non Cash Transactions:			
Decrease in fair value of investments	\$ 9,300	\$	\$
Receipt of contributed property			

**FORM C-3**

Enterprise Funds		Governmental Activities- Internal Service Funds	
Sewer Utility Fund	Totals Current Year		
\$ 1,046,493	\$ 14,981,067	\$ (932,527)	
2,862,630	8,541,998	1,758,315	
85,560	(585,838)		
	942,107		
985	(624,088)		
153,254	924,865		
3,444	983,919		
1,750	(1,390)		
(208,284)	(208,284)	(758)	
(21,022)	381,804	(14,188)	
(1,989)	(1,989)		
114,028	(3,547,318)	(8,961)	
(10,000)	(39,757)	(114,123)	
112,110	3,401,205	17,819	
	(36,420)		
	(32,000)	(60,332)	
147,259	(78,173)	(21,199)	
752	29,580	1,051	
<u>\$ 4,286,970</u>	<u>\$ 25,031,288</u>	<u>\$ 625,097</u>	
\$ 28,500	\$ 37,800	\$ 44,500	
		65,558	

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**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

NOTE 1: Summary of Significant Accounting Policies

The financial statements of the City of Rochester, Minnesota have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City of Rochester, Minnesota (the City) is a municipal corporation, incorporated under the laws of the State of Minnesota, and governed under a charter adopted in 1904.

Component units are legally separate entities which are fiscally dependent on the primary government or for which the primary government is financially accountable. As of December 31, 2002, there were no entities that met the requirements to be considered a component unit of the City.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 1: Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, hotel-motel taxes, licenses and permits, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

The *construction improvement fund* accounts for the financial resources to be used for street, sewer and water, and construction other than that financed by proprietary funds.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 1: Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The City reports the following major proprietary funds:

The *parking fund* accounts for the operation of the parking enterprise.

The *electric utility fund* accounts for the operations of the City owned electric utility system.

The *water utility fund* accounts for the operation of the City owned water utility system.

The *sewer utility fund* accounts for the operations of the City owned water reclamation plant.

Additionally, the City reports the following fund types:

*Internal service funds* account for insurance, data processing equipment and fleet management services provided to other departments of the City on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's enterprise funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 1: Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation  
(continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and investments

Cash balances from all funds are combined and invested to the extent available in authorized investments. Earnings from such investments are allocated to respective funds on the basis of applicable cash balance participation by each fund.

Investments are stated at fair value, based upon quoted market prices at the reporting date.

Cash and cash equivalents for purposes of the general purpose financial statements includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.



**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property tax levies are set by the City Council in December of each year and are certified to Olmsted County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1, of the following year, and are recorded as receivables by the City at that date. Revenues from property taxes are accrued and recognized in the year collectible, net of delinquencies.

Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts normally during the months of January, June and December.

Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable, net of an allowance for uncollectible taxes currently estimated at 3.0% of the outstanding balance. The net amount of delinquent taxes receivable are fully offset by deferred revenue in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

2. Receivables and payables (continued)

Assessments are levied at various times upon City Council resolution for property owner improvements made by the City. Generally, assessment collections are deferred over periods ranging from one to fifteen years with interest charges of 7.5%. Revenue from these assessments is recognized when assessed in the government-wide financial statements and as the annual installments become collectible in the governmental funds of the fund financial statements. Annual installments not collected as of each December 31 are classified as delinquent assessments receivable. Delinquent assessments receivable are carried net of an allowance for uncollectible assessments estimated at 3.0% of the outstanding balance. The net amount of delinquent assessments receivable are fully offset by deferred revenue in the governmental funds of the fund financial statements because they are not known to be available to finance current expenditures.

3. Inventory

The materials and supplies inventories are valued at moving average cost on a first-in, first-out basis. Fossil fuel inventories in the Enterprise Funds are valued at the lower of cost on a last-in, first-out basis, or market. Purchases are reported as expenditures when the inventory items are consumed (consumption method).

4. Restricted assets

Restricted assets are deposits held for specifically required purposes and are offset by fund balance reserve accounts.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested debt proceeds over the same period.

Property, plant and equipment are capitalized when acquired, and depreciation is provided using the straight-line method applied over the following estimated useful lives of the assets.

	Useful Life in Years
Buildings	10 - 40
Infrastructure	15 - 67
Other Improvements	5 - 40
Machinery and Equipment	2 - 20

GASB Statement No. 34 requires the City to report and depreciate new infrastructure assets effective with the beginning of the current year. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for the fiscal year ending in 2006. The City has elected to implement the general provisions of GASB Statement No. 34 in the current year and will implement the retroactive infrastructure provisions before December 31, 2006.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

6. Utility connection charges

The City enters into utility connection agreements with certain residential property owners that elect to convert to City utilities. Under these agreements, property owners may elect to pay connection charges in full or make payments to the City as special assessments over ten years as reimbursement for City made improvements. Utility connection charges are based on a flat rate per frontage foot and are limited to a maximum amount per lot based on lot size. Revenue from utility connection agreements is recognized when the City enters into agreements with property owners in the government-wide financial statements and as the charges become collectible in the governmental funds of the fund financial statements.

7. Compensated absences benefits

Vacation, sick pay and compensatory overtime are accrued when earned in the government-wide financial statements and the proprietary fund types. In the Governmental Funds of the fund financial statements, vacation, sick pay and compensatory overtime are recorded as expenditures and accrued as current liabilities during the year they would normally be liquidated with expendable available financial resources.

The City compensates employees upon termination, for one-third of their unused sick leave, after meeting certain qualifications based upon length of service and a minimum accumulation of hours. The compensation is computed at the employee's rate of pay at the time of termination, and is applied towards the cost of continuing group health and life insurance coverage. The sick leave liability is estimated based on the City's past experience of making termination payments for sick leave.

Unused vacation pay in excess of 40 hours generally expires on each employment anniversary date. Under certain conditions vacation pay will be paid upon termination in good standing. Most employees are also allowed to accumulate compensatory overtime up to a maximum of 80 hours per anniversary period. Certain other employees are allowed to accumulate compensatory overtime up to a maximum of 240 hours.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

8. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported separately and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Fund equity

In the fund financial statements, governmental fund types report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 2: Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted by Council resolution for the General and Special Revenue Funds with the exception of the Community Development Projects Fund which adopts project length budgets.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. Formal budgetary integration is not employed for the Debt Service Funds because effective budgetary control is alternately achieved through general obligation bond indenture provisions. Budgetary control for the Capital Project Funds is based on a project completion time cycle rather than an annual basis, therefore budgetary comparisons on an annual basis would not present meaningful information.

The City follows these legal compliance procedures in establishing the budgetary data reflected in the financial statements:

1. The City Administrator submits a proposed operating budget to the City Council prior to the end of each year for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to December 28, the budget is legally enacted through the passage of a budget resolution.
4. Any changes to the budget at the functional level must be by formal resolution of the City Council. Generally, budget amendments result in utilization of contingency appropriations and do not alter the total expenditure budget of the City. Monitoring of budgets is maintained at the department level by departments or divisions. However, expenditures in excess of the departmental budget require administrative approval.
5. All budgeted appropriations lapse at the end of the fiscal year. The legal level of budgetary control (i.e. the level at which expenditures may not legally exceed appropriations) is at the functional level.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g. purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds

A. Deposits

In accordance with Minnesota Statutes, the City maintains deposits with national banks, insured state banks or thrift institutions as authorized by the City Council.

Balances at December 31, 2002 are as follows:

	Book Balances	Bank Balances
Insured or collateralized by securities held by the City or its agent in the City's name	\$ 6,946,285	\$ 19,568,953
Collateralized by securities held by the pledging Institution's trust department in the City's name	-	-
Uncollateralized or collateralized with securities not in the City's name	-	-
Total	<u>\$ 6,946,285</u>	<u>\$ 19,568,953</u>

Minnesota Statutes requires that all City deposits be insured, secured by surety bond or collateralized, and the market value of collateral pledged must equal 110% of the deposits not covered by insurance or surety bonds.

Authorized collateral includes certain state or local government obligations and legal investments described in Section B. Minnesota Statutes also require that securities pledged as collateral be held in safekeeping by the Treasurer, or in a financial institution other than the institution furnishing the collateral.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

**B. Investments**

The City is authorized by Minnesota Statutes to invest idle funds as follows:

- (a) Direct obligations or obligations guaranteed by the United States or its agencies.
- (b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (c) General obligations of the State of Minnesota or its municipalities.
- (d) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
- (e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- (f) Repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a reporting dealer to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- (g) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.

Deposit and investment balances as of December 31, 2002 are as follows:

	Credit Risk Category			Carrying Amount
	1	2	3	
U.S. Governments	\$ 114,620,036	\$	\$	\$ 114,620,036
Municipal Bond	13,092,284			13,092,284
Totals	<u>\$ 127,712,320</u>	<u>\$</u>	<u>\$</u>	127,712,320
Investments in money market fund				<u>24,685,937</u>
				152,398,257
Deposits				6,946,286
Change Funds				7,340
Total Deposits and Investments				<u>\$ 159,351,883</u>



**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

B. Investments (continued)

A reconciliation of cash and investments as shown on the Statement of Net Assets:

Cash and cash equivalents	\$ 16,064,494
Investments	130,775,582
Restricted cash and investments	<u>12,511,807</u>
	<u><u>\$ 159,351,883</u></u>

The City investments are categorized above to give an indication of the level of risk assumed at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name.

C. Due From and To Other Governmental Units

Amounts due from other governmental units as of December 31, 2002 are as follows:

<u>Fund Type</u>	<u>Federal Government</u>	<u>State of Minnesota</u>	<u>Olmsted County</u>	<u>Other</u>	<u>Total</u>
General	\$	\$ 219,033	\$ 1,514,980	\$ 200,955	\$ 1,934,968
Special Revenue	603,397	9,944	729,480	52,792	1,395,613
Capital Project	357,167	2,420,310	772,834	6,177	3,556,488
Enterprise		364	33,030		33,394
Internal Service		<u>14,188</u>			<u>14,188</u>
Totals	<u>\$ 960,564</u>	<u>\$ 2,663,839</u>	<u>\$ 3,050,324</u>	<u>\$ 259,924</u>	<u>\$ 6,934,651</u>

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

C. Due From and To Other Governmental Units (continued)

Amounts due to other governmental units as of December 31, 2002 are as follows:

Fund Type	Federal Government	State of Minnesota	Olmsted County	Other	Total
General	\$	\$ 40,753	\$ 147,150	\$	\$ 187,903
Special Revenue	310	171,802	92,083	15,498	279,693
Capital Project		11,473	208,052	135	219,660
Enterprise		297,645	17,272		314,917
Internal Service			1,105		1,105
Totals	<u>\$ 310</u>	<u>\$ 521,673</u>	<u>\$ 465,662</u>	<u>\$ 15,633</u>	<u>\$1,003,278</u>

D. Restricted Cash and Assets

Restricted assets are deposits held for specifically required purposes and are offset by fund balance reserve accounts. Balances at December 31, 2002, and descriptions are as follows:

<u>General Fund</u>	
Civic Music Endowment:	
Rochester Area Foundation Endowment	<u>\$ 21,423</u>
<u>Special Revenue Funds</u>	
Memorials for Library Fund use:	
Walter Hurlbut Book Fund	34,040
Alice P. Mayo Trust Fund	15,721
Arthur B. Hall Memorial Fund	13,954
Clara Siem Memorial Fund	9,866
V. Huyber Memorial Fund	10,427
Norman D. Wilson Memorial Fund	14,265
Total	<u>98,273</u>
<u>Enterprise Funds</u>	
Reserve Account	3,517,468
Construction Account	8,747,495
Debt Service	127,148
Total	<u>12,392,111</u>
Total Restricted Cash	<u><u>\$ 12,511,807</u></u>
<u>Enterprise Funds</u>	
Territorial Service Acquisitions Escrow	<u>\$ 286,658</u>
Total Restricted Assets	<u><u>\$ 286,658</u></u>

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

D. Restricted Cash and Assets (continued)

The electric utility issued revenue bonds in 2000 and 2002 to fund the construction of electric utility improvements. Provisions of the revenue bonds require that the electric utility fund a debt service account in an amount equal to the following years bond principal and interest payments at least by the date the debt payments are due each year. In addition to the debt service account, provisions of the revenue bonds required that \$3,517,468 of the bond proceeds be deposited in a reserve account to be used to pay bond principal and interest payments if necessary. Under the terms of the revenue bonds, the bond proceeds, net of accrued interest, bond discount, and the reserve requirement, were deposited into a Construction Account to pay all construction-related costs. Any funds remaining in the Construction Account after the payment of these costs must be transferred to a debt service account.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets

Capital asset activity for the year ended December 31, 2002 was as follows:

<b>Governmental Activities</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 35,967,981	\$ 7,939,997	\$	\$ 43,907,978
Construction in progress	39,491,705	37,404,082	32,323,009	44,572,778
Total capital assets, not being depreciated	75,459,686	45,344,079	32,323,009	88,480,756
Capital assets, being depreciated:				
Buildings	105,698,357	471,539		106,169,896
Improvements other than buildings	11,187,231	553,852		11,741,083
Infrastructure		23,489,239		23,489,239
Machinery and equipment	37,295,023	3,195,394	1,560,073	38,930,344
Total capital assets, being depreciated	154,180,611	27,710,024	1,560,073	180,330,562
Less accumulated depreciation for:				
Buildings	30,627,197	3,022,646		33,649,843
Improvements other than buildings	6,501,639	432,017		6,933,656
Infrastructure		37,880		37,880
Machinery and equipment	19,918,833	3,336,032	1,412,095	21,842,770
Total accumulated depreciation	57,047,669	6,828,575	1,412,095	62,464,149
Total capital assets, being depreciated, net	97,132,942	20,881,449	147,978	117,866,413
Governmental activities capital assets, net	\$ 172,592,628	\$ 66,225,528	\$ 32,470,987	\$ 206,347,169

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

<b>Business-Type Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not being depreciated:				
Land	\$ 5,636,551	\$ 84,495	\$	\$ 5,721,046
Construction in progress	34,792,043	10,066,071	30,988,057	13,870,057
Total capital assets, not being depreciated	40,428,594	10,150,566	30,988,057	19,591,103
Capital assets, being depreciated:				
Buildings and improvements	119,103,361	2,599,375	1,273,449	120,429,287
Machinery and equipment	159,438,198	42,862,821	6,679,660	195,621,359
Total capital assets, being depreciated	278,541,559	45,462,196	7,953,109	316,050,646
Less accumulated depreciation for:				
Buildings and improvements	55,454,820	4,014,869	1,335,894	58,133,795
Machinery and equipment	82,882,287	4,527,129	6,270,040	81,139,376
Total accumulated depreciation	138,337,107	8,541,998	7,605,934	139,273,171
Total capital assets, being depreciated, net	140,204,452	36,920,198	347,175	176,777,475
Business-type activities capital assets, net	<u>\$ 180,633,046</u>	<u>\$ 47,070,764</u>	<u>\$ 31,335,232</u>	<u>\$ 196,368,578</u>

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

E. Capital Assets (continued)

Depreciation expense was charged to functions/programs as follows:

**Governmental Activities:**

General government	\$ 530,786
Public safety	483,376
Public works	137,740
Airport operations	977,980
Transit	197,349
Culture	747,069
Park and recreation	1,993,992
Community reinvestment/unallocated	1,968
Internal Service Funds:	
Equipment revolving	1,569,340
Information technology	188,975

Total depreciation expense - governmental activities	<u><u>\$ 6,828,575</u></u>
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**Business-Type Activities:**

Parking	\$ 897,273
Electric utility	4,179,205
Water utility	602,890
Sewer utility	2,862,630

Total depreciation expense - business-type activities	<u><u>\$ 8,541,998</u></u>
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**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers

The amounts due to and due from other funds as of December 31, 2002, at the individual fund level are summarized below:

Funds	Due From Other Funds	Due To Other Funds
General	\$1,114,213	\$ 285,490
Special Revenue:		
Library		10,437
Municipal recreation system	6,364	115,515
Airport operations		28,930
Transit		13,511
Community development projects		6,364
Capital Project:		
Construction improvements	2,990,139	2,890,996
Enterprise:		
Parking		256
Electric utility		1,344,889
Sewer utility	883,161	298,247
Internal Service:		
Self insurance	758	
Totals	<u>\$4,994,635</u>	<u>\$4,994,635</u>

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

F. Interfund Balances and Transfers (continued)

The amounts advanced to and advanced from other funds as of December 31, 2002, at the individual fund level are summarized below:

Funds	Advances to Other Funds	Advances from Other Funds
General Fund	\$ 222,395	\$
Special Revenue:		
Municipal Recreation System		1,803,927
Transit		222,395
Capital Project:		
Construction Improvements	5,703,842	3,899,915
Totals	<u>\$ 5,926,237</u>	<u>\$ 5,926,237</u>

Operating transfers during the year ended December 31, 2002 were as follows:

Funds	Transfers In	Transfers Out
General	\$ 8,830,445	\$ 1,681,354
Special Revenue	83,989	499,612
Debt Service	43,182	
Capital Project	7,409,577	5,618,249
Enterprise	1,850	8,624,844
Internal Service	125,042	70,026
Totals	<u>16,494,085</u>	<u>\$ 16,494,085</u>

Transfer in of general capital assets:

To Internal Service Funds from  
existing general capital assets

65,558

Total Transfers In

\$ 16,559,643

In the fund financial statements, total transfers in of \$16,559,643 are greater than total transfers out of \$16,494,085 because of the treatment of transfers of capital assets to the internal service funds. During the year existing capital assets related to governmental funds, with a book value of \$65,558, were transferred to internal service funds. No amounts were reported in the governmental funds as the amount did not involve the transfer of financial resources. However, the internal service funds did report a transfer in for the capital resources received.



**CITY OF ROCHESTER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

G. Operating Leases

The City is obligated under certain leases accounted for as operating leases. Lease expenditures for the year ended December 31, 2002 totaled \$134,485.

Following is a schedule by years of future minimum rental payments required under operating leases that have remaining non-cancelable lease terms in excess of one year. All scheduled rent increases are intended to cover inflationary increases in costs.

Years ending December 31:	
2003	\$ 30,638
2004	31,557
2005	32,504
2006	33,479
2007	34,483
2008 - 2012	148,593

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt

A summary of long-term debt obligations outstanding at December 31, 2002, is as follows:

	<u>Range of Interest Rates</u>	<u>Final Maturity</u>	<u>Balance 12/31/02</u>
General Obligation Bonds:			
Tax Increment Bonds, Series 1985	6.45-6.5%	2005	\$ 3,725,000
Taxable Tax Increment Bonds			
District 7, Series 1997	5.5%	2024	2,633,611
General Obligation Revenue Bonds:			
Taxable Sales Tax Revenue			
Bond of 2000	6.35%	2010	10,458,673
Temporary Sales Tax Revenue			
Bonds, Series 2000A	4.4%	2003	17,925,000
Wastewater Treatment Plant			
Refunding Bonds, Series 2001A	3.5-4.0%	2011	7,620,000
Revenue Bonds:			
Electric Utility Revenue			
Bonds, Series 2000	4.75-5.25%	2030	36,115,000
Electric Utility Revenue			
Bonds, Series 2002	3.0-4.5%	2017	11,275,000
Notes Payable:			
Electric Utility	5.56-7.70%	2003	200,000
Sales Tax Revenue Note - 2001	2.83%	2021	2,500,000
Airport Hangar - 1998	0%	2008	91,923
Airport Hangar - 1999	0%	2010	129,310
Airport Hangar - 2001	0%	2012	208,124
Compensated absences			8,129,588
Less: Unamortized discount and issuance costs			<u>(451,561)</u>
Total Long-term Debt			<u><u>\$ 100,559,668</u></u>

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

General Obligation Tax Increment Bonds

Tax Increment Bond, Series 1985, are backed by the full faith, credit and taxing power of the City and are serviced by the Debt Service Funds.

General Obligation Taxable Tax Increment Bonds

In 1997, the City authorized Taxable Tax Increment Bonds, District 7 of \$2,768,500. These bonds are structured without fixed principal maturities. Payments are equal to the amount of available tax increments received by the City within the six month period preceding each payment date. These bonds are backed by the full faith, credit, and taxing power of the City and are serviced by the Debt Service Fund.

General Obligation Taxable Sales Tax Revenue Bonds

In 2000, the City authorized Taxable Sales Tax Revenue Bonds of \$10,458,673. These bonds are structured without fixed principal maturities. The bonds are payable from revenues derived from the City's local 0.5% sales and use tax, and are backed by the full faith, credit, and taxing power of the City and are serviced by the Debt Service Fund.

General Obligation Temporary Sales Tax Revenue Bonds

In 2000, the City authorized Temporary Sales Tax Revenue Bonds of \$17,925,000. The bonds are payable from revenues derived from the City's local 0.5% sales and use tax, and are backed by the full faith, credit, and taxing power of the City and are serviced by the Debt Service Fund.

General Obligation Sales Tax Revenue Note

In 2001, the City authorized the issuance of a \$2,500,000 General Obligation Sales Tax Revenue Note to finance the construction of transportation infrastructure improvements. The funds were advanced under this note in 2002. The note is payable from revenues derived from the City's local 0.5% sales and use tax, and are backed by the full faith, credit, and taxing power of the City and are serviced by the Debt Service Fund.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

General Obligation Revenue Refunding Bonds

General Obligation Revenue Refunding Bonds are recorded as liabilities in the Sewer Utility Enterprise Fund. The bonds are payable from revenues derived from the operation of the Sewer Utility Enterprise Fund and are backed by the full faith, credit and taxing power of the City.

Revenue Bonds

Revenue Bonds are recorded as liabilities in the Electric Utility Enterprise Fund. The bonds are payable from revenues derived from the operation of the Electric Utility Enterprise Fund.

Notes Payable

The note payable recorded as a liability in the Electric Utility Enterprise Fund is payable from revenue derived from the operation of the Electric Utility Enterprise Fund.

The airport hangar notes payable are payable from airport hangar rental income.

Bond Indentures

There are a number of limitations and restrictions contained in the various bond indentures and note agreements and the City remains in substantial compliance with these requirements.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

The following is a summary of the changes in long-term debt obligations for the year ended December 31, 2002:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds and Notes Payable:					
General obligation bonds:					
Tax Increment Bonds Series 1985	\$ 4,775,000	\$	\$ 1,050,000	\$ 3,725,000	\$ 1,150,000
Taxable Tax Increment Bonds, District 7, Series 1997	2,669,380		35,769	2,633,611	
Taxable Sales Tax Revenue Bonds, Series 2000	10,458,673			10,458,673	
Temporary Sales Tax Revenue Bonds, Series 2000A	17,925,000			17,925,000	17,925,000
Note payable - Airport Hangar 1998	109,455		17,532	91,923	17,532
Note payable - Airport Hangar 1999	147,783		18,473	129,310	18,473
Note payable - Airport Hangar 2001	210,049	5,252	7,177	208,124	21,530
Sales Tax Revenue Note of 2001		2,500,000		2,500,000	101,000
Less: Unamortized Issuance Costs	(89,133)		39,708	(49,425)	
Other Liabilities:					
Compensated Absences	5,563,124	3,889,766	3,654,307	5,798,583	3,440,000
Governmental Activities Long-term Liabilities	41,769,331	6,395,018	4,822,966	43,420,799	22,673,535
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds and Notes Payable					
General Obligation Revenue Bonds:					
Wastewater Treatment Plant Refunding Bonds, Series 2001A	8,275,000		655,000	7,620,000	730,000
Revenue Bonds:					
Electric Utility Revenue Bonds, Series 2000	36,715,000		600,000	36,115,000	630,000
Electric Utility Revenue Bonds, Series 2002		11,275,000		11,275,000	445,000
Less: Unamortized Discount	(465,295)		63,159	(402,136)	
Notes Payable	400,000		200,000	200,000	200,000
Other Liabilities:					
Compensated Absences	2,101,638	2,131,113	1,901,746	2,331,005	1,511,605
Business-type Activities Long-term Liabilities	47,026,343	13,406,113	3,419,905	57,138,869	3,516,605
Total	\$ 88,795,674	\$ 19,801,131	\$ 8,242,871	\$ 100,559,668	\$ 26,190,140

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2002, excluding accrued compensated absences and including interest payments of \$40,285,843 over the life of the debt, are summarized below:

Years	General Obligation Bonds*		General Obligation Revenue Bonds		Revenue Bonds		Other	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>								
2003	\$ 1,150,000	\$ 242,125	\$ 17,925,000	\$ 394,350			\$ 159,245	\$ 70,750
2004	1,225,000	167,375					162,245	67,892
2005	1,350,000	87,750					165,245	64,948
2006							168,245	61,920
2007							171,245	58,808
2008-2012							753,132	244,200
2013-2017							708,000	152,057
2018-2022							642,000	46,044
Totals	<u>\$3,725,000</u>	<u>\$497,250</u>	<u>\$ 17,925,000</u>	<u>\$ 394,350</u>			<u>\$2,929,357</u>	<u>\$766,619</u>
<u>Business-Type Activities</u>								
2003			\$ 730,000	\$ 279,800	\$ 1,075,000	\$ 2,413,746	\$ 200,000	\$ 11,120
2004			770,000	254,250	1,265,000	2,227,218		
2005			785,000	227,300	1,310,000	2,177,718		
2006			820,000	199,825	1,365,000	2,126,344		
2007			830,000	171,125	1,415,000	2,072,706		
2008-2012			3,685,000	367,615	8,055,000	9,416,706		
2013-2017					10,090,000	7,449,793		
2018-2022					7,040,000	5,284,094		
2023-2027					9,095,000	3,235,052		
2028-2030					6,680,000	713,212		
Totals			<u>\$ 7,620,000</u>	<u>\$ 1,499,915</u>	<u>\$47,390,000</u>	<u>\$37,116,589</u>	<u>\$ 200,000</u>	<u>\$ 11,120</u>

\*Does not include the General Obligation Taxable Tax Increment Bonds, District No. 7, Series 1997 and the General Obligation Taxable Sales Tax Revenue Bond of 2000 which are structured without fixed principal maturities.

The City is subject to statutory limitation by the State of Minnesota for bonded indebtedness payable principally from property taxes. As of December 31, 2002, the City had not utilized any of its net legal debt margin which totaled \$103,662,224.

The City has issued several conduit debt obligations. These obligations do not constitute an indebtedness of the City and are not a charge against its general credit or taxing powers. The obligations are payable solely from revenues of the respective companies to which the proceeds were remitted. The original amount of the current issues totals \$1,349,758,000 and the balance outstanding at December 31, 2002 totals \$1,149,497,725.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

Pursuant to Minnesota Statutes (Section 273.74, Subd. 6) the City is required to disclose information related to its tax increment districts. These districts represent legal boundaries that allow the City to retain all incremental growth in assessed values.

District No.	Development District	Type of District	Date Created	Duration of District
2	2	Redevelopment	March 13, 1979	Through 2005
2-2	2	Redevelopment	May 6, 2002	25 Years following receipt of first increment
3-1	3	Redevelopment	February 14, 1988	25 Years following receipt of first increment
3-2	3	Housing	June 5, 1989	25 Years following receipt of first increment
5-1	5	Economic	June 6, 1994	11 Years or 9 Years following receipt of first increment, whichever is less
6-1	6	Housing	September 7, 1994	To February 1, 2014
7-1	7	Redevelopment	January 22, 1997	25 Years following receipt of first increment
8-1	8	Economic	April 7, 1997	11 Years from approval of TIF plan
10-1	10	Housing	January 20, 1999	25 Years following receipt of first increment
11-1	11	Housing	July 19, 1999	25 Years following receipt of first increment
12-1	12	Housing	August 16, 1999	25 Years following receipt of first increment
13-1	13	Housing	October 18, 1999	25 Years following receipt of first increment
14-1	14	Housing	November 1, 1999	25 Years following receipt of first increment
15-1	15	Housing	April 17, 2000	25 Years following receipt of first increment
16-1	16	Redevelopment	July 17, 2000	25 Years following receipt of first increment
17-1	17	Housing	September 6, 2000	25 Years following receipt of first increment
18-1	18	Housing	September 6, 2000	25 Years following receipt of first increment
19-1	19	Housing	September 6, 2000	25 Years following receipt of first increment
20-1	20	Housing	October 1, 2001	25 Years following receipt of first increment
21-1	21	Housing	October 15, 2001	25 Years following receipt of first increment
22-1	22	Housing	November 5, 2001	25 Years following receipt of first increment
23-1	23	Housing	June 3, 2002	25 Years following receipt of first increment
24-1	24	Housing	July 15, 2002	25 Years following receipt of first increment
25-1	25	Housing	October 21, 2002	25 Years following receipt of first increment

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

Tax Increment District No. 2 was created pursuant to Minnesota Statutes Chapter 472A. All other Tax Increment Districts were created pursuant to Minnesota Statutes Chapter 469.

	Tax Increment District			
	No. 2	No. 2-2	No. 3-1	No. 3-2
Original net tax capacity	\$ 571,616	\$ 16,918	\$ 39,538	\$ 599
Current net tax capacity	2,809,222	16,918	87,390	9,269
Captured net tax capacity:				
Retained by authority	2,237,606	-	47,852	8,670
Shared with other taxing districts	-	-	-	-
Total general obligation tax increment bonds issued	23,678,300	-	-	-
Amounts redeemed	19,953,300	-	-	-
Outstanding bonds at December 31, 2002	<u>\$ 3,725,000</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Tax Increment District			
	No. 5-1	No. 6-1	No. 7-1	No. 8-1
Original net tax capacity	\$ 22,592	\$ 100	\$ 1,191	\$ 1,161
Current net tax capacity	70,990	9,797	108,167	22,896
Captured net tax capacity:				
Retained by authority	48,398	9,697	106,976	21,735
Shared with other taxing districts	-	-	-	-
Total general obligation tax increment bonds issued	-	-	2,669,380	-
Amounts redeemed	-	-	35,769	-
Outstanding bonds at December 31, 2002	<u>-</u>	<u>-</u>	<u>\$ 2,633,611</u>	<u>-</u>



**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

	Tax Increment District				
	No. 10-1	No. 11-1	No. 12-1	No. 13-1	No. 14-1
Original net tax capacity	\$ 666	\$ 3,344	\$ 1,611	\$ 280	\$ 242
Current net tax capacity	6,093	16,782	39,848	22,995	61,182
Captured net tax capacity:					
Retained by authority	5,427	13,438	38,237	22,715	60,940
Shared with other taxing districts	-	-	-	-	-
Total general obligation tax increment bonds issued	-	-	-	-	-
Amounts redeemed	-	-	-	-	-
Outstanding bonds at December 31, 2002	-	-	-	-	-
	Tax Increment District				
	No. 15-1	No. 16-1	No. 17-1	No. 18-1	No. 19-1
Original net tax capacity	\$ 148	\$ 410	\$ 85	263	\$ 106
Current net tax capacity	6,836	75,162	16,908	1,631	3,370
Captured net tax capacity:					
Retained by authority	6,688	74,752	16,823	1,368	3,264
Shared with other taxing districts	-	-	-	-	-
Total general obligation tax increment bonds issued	-	-	-	-	-
Amounts redeemed	-	-	-	-	-
Outstanding bonds at December 31, 2002	-	-	-	-	-

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

H. Long-term Debt (continued)

	No. 20-1	Tax Increment District		
		No. 21-1	No. 22-1	No. 23-1
Original net tax capacity	\$ 213	\$ 766	\$ 675	\$ 26
Current net tax capacity	213	766	675	26
Captured net tax capacity:				
Retained by authority	-	-	-	-
Shared with other taxing districts	-	-	-	-
Total general obligation tax increment bonds issued	-	-	-	-
Amounts redeemed	-	-	-	-
Outstanding bonds at December 31, 2002	-	-	-	-

	No. 24-1	Tax Increment District	
		No. 25-1	
Original net tax capacity	\$ 3,012	\$ 347	
Current net tax capacity	3,012	347	
Captured net tax capacity:			
Retained by authority	-	-	
Shared with other taxing districts	-	-	
Total general obligation tax increment bonds issued	-	-	
Amounts redeemed	-	-	
Outstanding bonds at December 31, 2002	-	-	

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 3: Detailed Notes on All Funds (continued)

I. Designated Fund Balance

Designated fund balance represents the portion which is based on tentative future spending plans. Fund balance has been designated at December 31, 2002 in the following funds:

General Fund

Designated:

Subsequent years' appropriations	\$ 1,715,927
General contingency for future compensated absences	<u>4,416,931</u>

Totals	<u><u>\$ 6,132,858</u></u>
--------	----------------------------

Special Revenue Funds

	<u>Library</u>	<u>Municipal Recreation</u>	<u>Law Enforcement Block Grants</u>	<u>Totals</u>
Designated:				
Subsequent years' appropriations	\$ 240,380	\$ 74,519	\$ 90,278	\$ 405,177
General contingency for future compensated absences	<u>325,701</u>	<u>700,087</u>		<u>1,025,788</u>
Totals	<u><u>\$ 566,081</u></u>	<u><u>\$ 774,606</u></u>	<u><u>\$ 90,278</u></u>	<u><u>\$ 1,430,965</u></u>

NOTE 4: Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the League of Minnesota Cities Insurance Trust (LMCIT) to provide its general liability and property coverage. The LMCIT is a public entity risk pool currently operating as a common risk management and insurance program for participating Minnesota cities. All cities in the LMCIT are jointly and severally liable for all claims and expenses of the pool. The amount of any liability in excess of assets of the pool may be assessed to the participating cities if a deficiency occurs. The City purchases commercial insurance for property values in excess of the LMCIT policy limits and all other risks of loss. Settled claims have not exceeded the LMCIT or commercial coverage in any of the past three fiscal years.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 4: Other Information (continued)

A. Risk Management (continued)

The City maintains a self-insurance program for employee group health coverage and worker's compensation. The City has established a Self-Insurance Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program the Self-Insurance Fund provides coverage for up to a maximum of \$225,000 per group health claim (with a variable annual aggregate) and \$700,000 for each worker's compensation claim.

The City purchases commercial insurance for claims in excess of the coverage provided by the Self-Insurance Fund. All funds of the City participate in the program and make payments to the Self-Insurance Fund. The claim liability of \$2,273,994 reported in the Fund at December 31, 2002 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, as amended by Governmental Accounting Standards Board Statement No. 30, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claim liabilities are based on the estimated ultimate cost of settling claims, including specific and incremental expenses, salvage, and subrogation. The claim liability does not include other allocated or unallocated claim adjustment expenses.

Changes in the Fund's claims liability amount during the years ended December 31, 2002 and 2001 were as follows:

Year Ended	Beginning of Year Liability	Current Year Claims and Changes to Estimates	Claim Payments	End of Year Liability
2002	\$2,334,276	\$ 6,577,482	\$(6,637,814)	\$2,273,944
2001	1,948,055	6,688,928	(6,302,707)	2,334,276

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 4: Other Information (continued)

B. Contingent Liabilities

General Litigation:

There are several pending lawsuits in which the City is involved. It is the opinion of management that substantially all of these claims would be covered by the liability insurance of the City and that potential claims against the City would not materially affect the financial statements.

Federally Assisted Programs:

The City participates in a number of federal agency assisted grant programs, principal of which are the Community Development Block Grant, Federal Transit, and Airport Improvement programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of certain programs for or including the year ended December 31, 2002, have not yet been completed. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

C. Commitments

Power Purchase Agreement:

Rochester Public Utilities ("Utility") has entered into a power purchase agreement with Southern Minnesota Municipal Power Agency ("Agency"). Under the terms of the agreement the Agency provided virtually all Utility power requirements through 1999. In 1999, the Utility and Agency agreed to a contract rate of delivery (CROD) beginning in 2000. The CROD caps the amount of power the Agency must supply to the Utility under the power purchase contract. The Utility is responsible for acquiring its power needs above the CROD. The contract expires in the year 2030.

Power Generation Agreement:

In 1992 Rochester Public Utilities ("Utility") entered into an agreement with the Minnesota Municipal Power Agency ("MMPA") to sell a maximum of 100 megawatts of power annually to MMPA beginning July 1, 1995, at a fixed rate. Under the terms of the agreement, the Utility is paid a fixed fee for providing the availability of generating capacity and is reimbursed for the fuel-related costs of generating power. The agreement was terminated on the earliest termination date of April 1, 2001.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 4: Other Information (continued)

C. Commitments (continued)

Construction and Equipment Purchase Commitments:

The City has active construction projects and equipment purchase commitments as of December 31, 2002. At year end the City's commitments with contractors and vendors is as follows:

<u>Construction Projects</u>	<u>Remaining Commitment</u>
Street Construction	\$ 2,051,784
Water and Sewer	1,619,512
Sidewalks and Pedestrian Bridges	1,349,833
Fire Station	359,205
Mayo Civic Center	300,206
Traffic Signals	186,050
Storm Water	155,536
Airport Facilities	117,475
Parks and Recreation	39,959
Tax Increment Projects	37,565
Recreation Center	15,680
Other General Government	65,718
Total Construction Projects	<u>\$ 6,298,523</u>
<u>Equipment Purchase Commitments</u>	
Transit	\$ 2,180,167
Airport	50,907
Total Equipment Purchase Commitments	<u>\$ 2,231,074</u>

D. Deferred Compensation

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is generally not available to employees until termination, retirement, death, or unforeseeable emergency.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems

The City participates in a statewide retirement plan administered by the Public Employees Retirement Association (PERA). PERA is the administrator of two cost-sharing multiple-employer retirement plans, the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF). PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF and PEPFF. That report may be obtained on the web at mnpera.com, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026. The following disclosures are made in accordance with Statement No. 27 of the Governmental Accounting Standards Board:

1. Cost-Sharing Multiple-Employer  
**Defined Benefit Pension Plans - Statewide**  
Public Employees Retirement Association

A. Plan Description

All full-time and certain part-time employees of the City of Rochester are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERF's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year.

**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

A. Plan Description (continued)

The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age for unreduced Social security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree -- no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.



**CITY OF ROCHESTER, MINNESOTA**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2002**

NOTE 4: Other Information (continued)

E. Employee Retirement Systems (continued)

B. Funding Policy

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.10% respectively, of their annual covered salary. PEPFF members are required to contribute 6.20% of their annual covered salary. The City of Rochester is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 5.53% for Coordinated Plan PERF members, and 9.3% for PEPFF members. The City's contribution to the Public Employees Retirement Fund for the years ending December 31, 2002, 2001, and 2000 were \$1,693,144, \$1,507,888, and \$1,432,489, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2002, 2001, and 2000 were \$1,184,732, \$1,138,078, and \$1,058,736, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

**CITY OF ROCHESTER, MINNESOTA**  
**COMBINING AND INDIVIDUAL**  
**FUND STATEMENTS AND SCHEDULES**  
**DECEMBER 31, 2002**

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# **CITY OF ROCHESTER, MINNESOTA**

## **NONMAJOR FUNDS**

**DECEMBER 31, 2002**

### **SPECIAL REVENUE FUNDS**

#### **Library Fund:**

The Library Fund was established in 1968 by Council resolution to account for all gifts, donations and contributions, all fees and such other monies collected from the operation of the Library and all taxes levied by the Common Council for Library purposes.

#### **Municipal Recreation System Fund:**

This fund was created by Council resolution, under the authority of City Charter Chapter XI to account for the activities of the Park and Recreation System.

#### **Law Enforcement Block Grants Fund:**

This fund was established in 1996, as required by the Department of Justice, to account for grant revenues and eligible expenditures.

#### **Airport Operations Fund:**

This fund was established in 1998 by Council resolution to account for the revenues and expenditures of the Rochester International Airport operations.

#### **The F.E. Williams Estate Fund:**

This fund was established to account for the gift of property made by Mr. Frank E. Williams to be used "for the acquiring of or the support of, or the maintenance of a playground or playgrounds, for children under 15 years of age."

**Transit Fund:** This fund was established to account for the financial resources received for the support of regular route, dial-a-ride and rideshare services.

#### **Community Development Projects Fund:**

This fund was established to account for the financial resources received under Title I of the Housing and Community Development Act of 1974.

### **DEBT SERVICE FUNDS**

#### **Sales Tax Revenue Bonds Fund:**

These funds are used to account for the accumulation of resources (sales tax revenue) for payment of sales tax revenue general obligation improvement bonds and interest.

#### **Tax Increment Bonds Fund:**

These funds are used to account for the accumulation of resources (tax increment revenue) for payment of tax increment general obligation bonds and interest.

#### **Airport Hangar Construction Notes Fund:**

These funds are used to account for the accumulation of resources (hangar rental income) for payment of airport hangar construction notes.

**CITY OF ROCHESTER, MINNESOTA**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
December 31, 2002

	Special Revenue				
	Library	Municipal Recreation System	Law Enforcement Block Grants	Airport Operations	F.E. Williams Estate
<b>ASSETS</b>					
Cash and cash equivalents	\$ 59,862	\$ 51,163	\$ 99,937	\$ 43,896	\$ 14,060
Investments	1,448,000	2,974,700		1,916,300	277,900
Accrued interest receivable	13,200	27,100		16,100	2,300
Accounts receivable (net of allowance for uncollectibles)	275	129,986		785,972	
Loans and notes receivable					
Taxes receivable delinquent	28,655	32,450		3,527	
Special assessments receivable delinquent		4,547			
Due from other funds		6,364			
Due from other governmental units	104,968	655,027		96,093	
Restricted cash	98,273				
Prepaid items	313				
<b>TOTAL ASSETS</b>	<b>\$ 1,753,546</b>	<b>\$3,881,337</b>	<b>\$ 99,937</b>	<b>\$2,861,888</b>	<b>\$ 294,260</b>
<b>LIABILITIES AND FUND BALANCE</b>					
Liabilities:					
Accounts payable	\$ 156,120	\$ 122,610	\$ 9,243	\$ 60,230	\$ 1,000
Deposits payable	6,816	262,328			
Accrued compensation and payroll taxes	164,170	224,075			
Accrued compensated absences	15,450	40,686			
Due to other funds	10,437	115,515		28,930	
Due to other governmental units	12,713	164,871	416	310	32
Advances from other funds		1,803,927			
Deferred revenue	28,655	36,997		3,527	
<b>Total Liabilities</b>	<b>394,361</b>	<b>2,771,009</b>	<b>9,659</b>	<b>92,997</b>	<b>1,032</b>
Fund Balance:					
Reserved for restricted assets	98,273				
Reserved for prepaid items	313				
Reserved for debt service					
Reserved for encumbrances		31,163			
Unreserved:					
Designated for future compensated absences	325,701	700,087			
Designated for subsequent years' appropriations	240,380	74,519	90,278		
Undesignated	694,518	304,559		2,768,891	293,228
<b>Total Fund Balance</b>	<b>1,359,185</b>	<b>1,110,328</b>	<b>90,278</b>	<b>2,768,891</b>	<b>293,228</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 1,753,546</b>	<b>\$3,881,337</b>	<b>\$ 99,937</b>	<b>\$2,861,888</b>	<b>\$ 294,260</b>

Transit	Community Development Projects	Total	Debt Service			Total	Total Nonmajor Governmental Funds
			Sales Tax Revenue Bonds	Tax Increment Bonds	Airport Hangar Construction Notes		
\$	\$	\$ 268,918	\$ 2,606	\$ 1,075	\$	\$ 3,681	\$ 272,599
		6,616,900					6,616,900
		58,700					58,700
28,005		944,238					944,238
	2,869,773	2,869,773					2,869,773
		64,632					64,632
		4,547					4,547
		6,364					6,364
448,725	90,800	1,395,613					1,395,613
		98,273					98,273
		313					313
<u>\$ 476,730</u>	<u>\$ 2,960,573</u>	<u>\$12,328,271</u>	<u>\$ 2,606</u>	<u>\$ 1,075</u>	<u>\$</u>	<u>\$ 3,681</u>	<u>\$12,331,952</u>
\$ 111,722	\$ 57,333	\$ 518,258	\$	\$ 625	\$	\$ 625	\$ 518,883
	300	269,444					269,444
		388,245					388,245
		56,136					56,136
13,511	6,364	174,757					174,757
74,548	26,803	279,693					279,693
222,395		2,026,322					2,026,322
	2,869,773	2,938,952					2,938,952
<u>422,176</u>	<u>2,960,573</u>	<u>6,651,807</u>		625		625	<u>6,652,432</u>
		98,273					98,273
		313					313
			2,606	450		3,056	3,056
		31,163					31,163
		1,025,788					1,025,788
		405,177					405,177
54,554		4,115,750					4,115,750
<u>54,554</u>		<u>5,676,464</u>	<u>2,606</u>	<u>450</u>		<u>3,056</u>	<u>5,679,520</u>
<u>\$ 476,730</u>	<u>\$ 2,960,573</u>	<u>\$12,328,271</u>	<u>\$ 2,606</u>	<u>\$ 1,075</u>	<u>\$</u>	<u>\$ 3,681</u>	<u>\$12,331,952</u>

**CITY OF ROCHESTER, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
For the Year Ended December 31, 2002

	Special Revenue				
	Library	Municipal Recreation System	Law Enforcement Block Grants	Airport Operations	F.E. Williams Trust
<b>REVENUES</b>					
General property taxes	\$ 3,263,719	\$ 3,651,821	\$	\$ 404,298	\$
Tax increments					
Sales tax					
Intergovernmental revenues	1,065,607	423,622	50,013	212,859	
Charges for services	145,237	4,666,340		2,194,399	
Interest earnings	29,665	96,746	3,099	81,859	10,862
Net increase (decrease) in the fair value of investments	(2,800)	(7,600)		(5,900)	200
Miscellaneous revenues	48,081	72,615		18,000	10,140
Total Revenues	<u>4,549,509</u>	<u>8,903,544</u>	<u>53,112</u>	<u>2,905,515</u>	<u>21,202</u>
<b>EXPENDITURES</b>					
Culture	4,627,973				
Park and recreation		8,881,810			4,796
Public safety			73,903		
Airport operations				2,383,311	
Transit					
Economic development/tourism					
Debt service					
Total Expenditures	<u>4,627,973</u>	<u>8,881,810</u>	<u>73,903</u>	<u>2,383,311</u>	<u>4,796</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(78,464)</u>	<u>21,734</u>	<u>(20,791)</u>	<u>522,204</u>	<u>16,406</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in		76,552	5,557		
Transfers out			(6,000)	(293,207)	
Total Other Financing Sources (Uses)		<u>76,552</u>	<u>(443)</u>	<u>(293,207)</u>	
Net change in fund balances	<u>(78,464)</u>	<u>98,286</u>	<u>(21,234)</u>	<u>228,997</u>	<u>16,406</u>
Fund Balances - beginning	<u>1,437,649</u>	<u>1,012,042</u>	<u>111,512</u>	<u>2,539,894</u>	<u>276,822</u>
Fund Balances - ending	<u>\$ 1,359,185</u>	<u>\$ 1,110,328</u>	<u>\$ 90,278</u>	<u>\$ 2,768,891</u>	<u>\$ 293,228</u>

Transit	Community Development Projects	Total	Debt Service				Total Nonmajor Governmental Funds
			Sales Tax Revenue Bonds	Tax Increment Bonds	Airport Hangar Construction Notes	Total	
\$	\$	\$7,319,838	\$	\$	\$	\$	\$ 7,319,838
				1,543,652		1,543,652	1,543,652
			1,452,826			1,452,826	1,452,826
1,898,851	788,538	4,439,490					4,439,490
89,054		7,095,030					7,095,030
980		223,211					223,211
		(16,100)					(16,100)
12,769	96,869	258,474					258,474
2,001,654	885,407	19,319,943	1,452,826	1,543,652		2,996,478	22,316,421
		4,627,973					4,627,973
		8,886,606					8,886,606
		73,903					73,903
		2,383,311					2,383,311
1,948,980		1,948,980					1,948,980
	685,002	685,002					685,002
			1,452,826	1,543,652	43,182	3,039,660	3,039,660
1,948,980	685,002	18,605,775	1,452,826	1,543,652	43,182	3,039,660	21,645,435
52,674	200,405	714,168			(43,182)	(43,182)	670,986
1,880		83,989			43,182	43,182	127,171
	(200,405)	(499,612)					(499,612)
1,880	(200,405)	(415,623)			43,182	43,182	(372,441)
54,554		298,545					298,545
		5,377,919	2,606	450		3,056	5,380,975
\$ 54,554	\$	\$5,676,464	\$ 2,606	\$ 450	\$	\$ 3,056	\$ 5,679,520



**CITY OF ROCHESTER, MINNESOTA**  
**LIBRARY FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
For the Year Ended December 31, 2002

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
<b>REVENUES</b>				
General property taxes	\$3,595,054	\$3,265,704	\$3,263,719	\$ (1,985)
Intergovernmental	704,846	1,065,619	1,065,607	(12)
Charges for services	149,750	149,750	145,237	(4,513)
Interest earnings			29,665	29,665
Net (decrease) in the fair value of investments			(2,800)	(2,800)
Miscellaneous				
Contributions		36,449	36,449	
Other	350	351	11,632	11,281
Total Revenues	<u>4,450,000</u>	<u>4,517,873</u>	<u>4,549,509</u>	<u>31,636</u>
<b>EXPENDITURES</b>				
Public Library	4,379,245	4,473,024	4,471,455	1,569
Library - SELCO	70,755	119,328	51,043	68,285
Gifts appropriations		269,887	105,475	164,412
Total Expenditures	<u>4,450,000</u>	<u>4,862,239</u>	<u>4,627,973</u>	<u>234,266</u>
Net change in fund balances		(344,366)	(78,464)	265,902
Fund Balances - beginning	<u>1,437,649</u>	<u>1,437,649</u>	<u>1,437,649</u>	
Fund Balances - ending	<u>\$1,437,649</u>	<u>\$1,093,283</u>	<u>\$1,359,185</u>	<u>\$ 265,902</u>

**CITY OF ROCHESTER, MINNESOTA**  
**MUNICIPAL RECREATION SYSTEM FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
For the Year Ended December 31, 2002

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
<b>REVENUES</b>				
General property taxes	\$ 4,021,765	\$ 3,653,195	\$ 3,651,821	\$ (1,374)
Intergovernmental	25,557	422,196	423,622	1,426
Charges for services	4,478,678	4,598,867	4,666,340	67,473
Interest earnings		148,000	96,746	(51,254)
Net (decrease) in the fair value of investments			(7,600)	(7,600)
Miscellaneous				
Contributions		19,810	16,411	(3,399)
Other		55,489	56,204	715
Total Revenues	<u>8,526,000</u>	<u>8,897,557</u>	<u>8,903,544</u>	<u>5,987</u>
<b>EXPENDITURES</b>				
Administration	338,807	338,807	350,139	(11,332)
Recreation Department	505,576	505,876	526,446	(20,570)
Golf	1,304,234	1,312,756	1,250,165	62,591
Tennis Center	36,396	36,396	39,899	(3,503)
Volleyball Center	184,583	215,286	213,904	1,382
Swimming Pools	187,631	187,631	198,717	(11,086)
Graham Arenas	381,427	383,192	365,067	18,125
Park	2,646,715	2,683,104	2,571,451	111,653
Plummer House	47,634	47,634	46,769	865
Recreation Center	1,126,177	1,217,177	1,136,451	80,726
UCR Field House		34,189	123,556	(89,367)
Mayo Civic Center	1,888,820	1,999,502	2,059,246	(59,744)
Total Expenditures	<u>8,648,000</u>	<u>8,961,550</u>	<u>8,881,810</u>	<u>79,740</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(122,000)</u>	<u>(63,993)</u>	<u>21,734</u>	<u>85,727</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in		76,552	76,552	
Transfers out	<u>(30,000)</u>	<u>(30,000)</u>		<u>30,000</u>
Total Other Financing Sources (Uses)	<u>(30,000)</u>	<u>46,552</u>	<u>76,552</u>	<u>30,000</u>
Net change in fund balances	(152,000)	(17,441)	98,286	115,727
Fund Balances - beginning	<u>1,012,042</u>	<u>1,012,042</u>	<u>1,012,042</u>	
Fund Balances - ending	<u>\$ 860,042</u>	<u>\$ 994,601</u>	<u>\$ 1,110,328</u>	<u>\$ 115,727</u>

**CITY OF ROCHESTER, MINNESOTA**  
**LAW ENFORCEMENT BLOCK GRANTS FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
For the Year Ended December 31, 2002

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive (Negative)
<b>REVENUES</b>				
Intergovernmental	\$	\$	\$ 50,013	\$ 50,013
Interest earnings			3,099	3,099
Total Revenues			53,112	53,112
<b>EXPENDITURES</b>				
Law enforcement block grant IV		2,964	2,964	
Law enforcement block grant V		33,785	32,603	1,182
Law enforcement block grant VI		74,763	38,336	36,427
Law enforcement block grant VII		5,557		5,557
Total Expenditures		117,069	73,903	43,166
Excess (deficiency) of revenues over (under) expenditures		(117,069)	(20,791)	96,278
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in		5,557	5,557	
Transfers out			(6,000)	(6,000)
Total Other Financing Sources (Uses)		5,557	(443)	(6,000)
Net change in fund balances		(111,512)	(21,234)	90,278
Fund Balances - beginning	111,512	111,512	111,512	
Fund Balances - ending	\$ 111,512	\$	\$ 90,278	\$ 90,278

**CITY OF ROCHESTER, MINNESOTA**  
**AIRPORT OPERATIONS FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
For the Year Ended December 31, 2002

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive (Negative)
<b>REVENUES</b>				
General property taxes	\$ 444,813	\$ 404,013	\$ 404,298	\$ 285
Intergovernmental	117,924	218,119	212,859	(5,260)
Charges for services	2,432,085	2,579,446	2,194,399	(385,047)
Interest earnings	62,500	62,500	81,859	19,359
Net (decrease) in the fair value of investments			(5,900)	(5,900)
Miscellaneous	48,100	66,100	18,000	(48,100)
Total Revenues	<u>3,105,422</u>	<u>3,330,178</u>	<u>2,905,515</u>	<u>(424,663)</u>
<b>EXPENDITURES</b>				
Airport operations	1,995,651	2,279,884	2,278,046	1,838
US customs operations	96,200	106,723	105,265	1,458
Total Expenditures	<u>2,091,851</u>	<u>2,386,607</u>	<u>2,383,311</u>	<u>3,296</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,013,571</u>	<u>943,571</u>	<u>522,204</u>	<u>(421,367)</u>
<b>OTHER FINANCING (USES)</b>				
Transfers out	<u>(293,207)</u>	<u>(293,207)</u>	<u>(293,207)</u>	
Net change in fund balances	720,364	650,364	228,997	(421,367)
Fund Balances - beginning	<u>2,539,894</u>	<u>2,539,894</u>	<u>2,539,894</u>	
Fund Balances - ending	<u><u>\$3,260,258</u></u>	<u><u>\$3,190,258</u></u>	<u><u>\$2,768,891</u></u>	<u><u>\$ (421,367)</u></u>

**CITY OF ROCHESTER, MINNESOTA**  
**F. E. WILLIAMS ESTATE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
For the Year Ended December 31, 2002

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
<b>REVENUES</b>				
Interest earnings	\$ 8,000	\$ 8,000	\$ 10,862	\$ 2,862
Net increase in fair value of investments			200	200
Miscellaneous				
Contributions			500	500
Rental of real property	8,000	8,000	9,640	1,640
Total Revenues	<u>16,000</u>	<u>16,000</u>	<u>21,202</u>	<u>5,202</u>
<b>EXPENDITURES</b>				
Contractual services	20,000	20,500	1,830	18,670
Materials and supplies			2,966	(2,966)
Total Expenditures	<u>20,000</u>	<u>20,500</u>	<u>4,796</u>	<u>15,704</u>
Net change in fund balances	(4,000)	(4,500)	16,406	20,906
Fund Balances - beginning	<u>276,822</u>	<u>276,822</u>	<u>276,822</u>	
Fund Balances - ending	<u>\$ 272,822</u>	<u>\$ 272,322</u>	<u>\$ 293,228</u>	<u>\$ 20,906</u>

**CITY OF ROCHESTER, MINNESOTA**  
**TRANSIT FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
For the Year Ended December 31, 2002

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Positive (Negative)</u>
<b>REVENUES</b>				
Intergovernmental revenues	\$ 1,760,371	\$ 2,067,559	\$ 1,898,851	\$ (168,708)
Charges for services			89,054	89,054
Interest earnings			980	980
Miscellaneous	7,500	20,524	12,769	(7,755)
Total Revenues	<u>1,767,871</u>	<u>2,088,083</u>	<u>2,001,654</u>	<u>(86,429)</u>
<b>EXPENDITURES</b>				
Contractual services	408,405	423,715	242,341	181,374
Materials and supplies	2,100	2,100	118	1,982
Other charges	1,664,396	1,664,396	1,706,521	(42,125)
Total Expenditures	<u>2,074,901</u>	<u>2,090,211</u>	<u>1,948,980</u>	<u>141,231</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(307,030)</u>	<u>(2,128)</u>	<u>52,674</u>	<u>54,802</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in			1,880	1,880
Net change in fund balances	(307,030)	(2,128)	54,554	56,682
Fund Balances - beginning				
Fund Balances - ending	<u>\$ (307,030)</u>	<u>\$ (2,128)</u>	<u>\$ 54,554</u>	<u>\$ 56,682</u>

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**CITY OF ROCHESTER, MINNESOTA**  
**COMBINING AND INDIVIDUAL**  
**FUND STATEMENTS AND SCHEDULES (CONTINUED)**  
**INTERNAL SERVICE FUNDS**  
**DECEMBER 31, 2002**

Internal Service Funds are used to account for the financing of goods or services provided for various departments of the City on a cost-reimbursement basis. The accrual basis of accounting is used. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**Equipment Revolving Fund:**

This fund was created by Council resolution for the purchase and replacement of equipment. City departments pay rental charges to the Equipment Revolving Fund for equipment used in providing services.

**Information Technology Revolving Fund:**

This fund was established in 1998 to provide for the purchase and upgrading of computer equipment and base-system software; and maintenance of current computer hardware. User charges are assessed against City departments using the computer equipment.

**Self-Insurance Fund:**

This fund was established by Council resolution, under the authority of City Charter Chapter XI, to account for the City's self-insurance program which includes group life and health, workers' compensation and deductible property loss.



**CITY OF ROCHESTER, MINNESOTA**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF NET ASSETS**  
December 31, 2002

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Total
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 424,647	\$ 143,004	\$ 608,548	\$ 1,176,199
Investments	4,544,500	2,967,000	8,148,600	15,660,100
Accrued interest receivable	38,300	25,000	71,000	134,300
Due from other funds			758	758
Due from other governmental units		14,188		14,188
Total Current Assets	<u>5,007,447</u>	<u>3,149,192</u>	<u>8,828,906</u>	<u>16,985,545</u>
Noncurrent Assets:				
Capital assets:				
Machinery and equipment	16,015,688	521,735		16,537,423
Less: Accumulated depreciation	<u>(7,306,405)</u>	<u>(292,922)</u>		<u>(7,599,327)</u>
Total capital assets (net of accumulated depreciation)	<u>8,709,283</u>	<u>228,813</u>		<u>8,938,096</u>
Total Assets	<u>13,716,730</u>	<u>3,378,005</u>	<u>8,828,906</u>	<u>25,923,641</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	144			144
Deposits payable			518,253	518,253
Accrued compensation and payroll taxes			17,819	17,819
Due to other governmental units			1,105	1,105
Accrued claims			1,396,944	1,396,944
Total Current Liabilities	<u>144</u>		<u>1,934,121</u>	<u>1,934,265</u>
Noncurrent Liabilities:				
Accrued claims			877,000	877,000
Total Liabilities	<u>144</u>		<u>2,811,121</u>	<u>2,811,265</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	8,709,283	228,813		8,938,096
Unrestricted	<u>5,007,303</u>	<u>3,149,192</u>	<u>6,017,785</u>	<u>14,174,280</u>
Total Net Assets	<u>\$13,716,586</u>	<u>\$ 3,378,005</u>	<u>\$ 6,017,785</u>	<u>\$23,112,376</u>

**CITY OF ROCHESTER, MINNESOTA**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET ASSETS**  
For the Year Ended December 31, 2002

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Totals
Operating Revenues:				
Charges for Services:				
Equipment rental	\$ 1,562,755	\$ 115,819	\$	\$ 1,678,574
Copy center charges	41,610			41,610
Departmental workers' compensation charges			51,012	51,012
Departmental insurance charges			5,721,221	5,721,221
Departmental flex charges			18,858	18,858
Employee insurance charges			876,553	876,553
Employee flex benefit contributions			508,320	508,320
Total Operating Revenues	<u>1,604,365</u>	<u>115,819</u>	<u>7,175,964</u>	<u>8,896,148</u>
Operating Expenses:				
Copy center	14,465			14,465
Minor equipment		107,789		107,789
Workers' compensation benefits			205,044	205,044
Workers' compensation insurance premiums			48,015	48,015
Health insurance claims			6,799,865	6,799,865
Flex benefits			546,398	546,398
Other	964	3,866	343,954	348,784
Depreciation	1,569,340	188,975		1,758,315
Total Operating Expenses	<u>1,584,769</u>	<u>300,630</u>	<u>7,943,276</u>	<u>9,828,675</u>
Operating Income (Loss)	<u>19,596</u>	<u>(184,811)</u>	<u>(767,312)</u>	<u>(932,527)</u>
Nonoperating Revenues (Expenses):				
Interest earnings	186,425	115,324	341,311	643,060
Net (decrease) in the fair value of investments	(14,500)	(5,800)	(24,200)	(44,500)
(Loss) on disposal of property	(66,268)			(66,268)
Other income (expense)	12,295	(10,084)	400	2,611
Total Nonoperating Revenues (Expenses)	<u>117,952</u>	<u>99,440</u>	<u>317,511</u>	<u>534,903</u>
Income (Loss) Before Transfers	137,548	(85,371)	(449,801)	(397,624)
Transfers in	35,000	155,600		190,600
Transfers out		(70,026)		(70,026)
Change in Net Assets	172,548	203	(449,801)	(277,050)
Total Net Assets - beginning	<u>13,544,038</u>	<u>3,377,802</u>	<u>6,467,586</u>	<u>23,389,426</u>
Total Net Assets - ending	<u>\$13,716,586</u>	<u>\$ 3,378,005</u>	<u>\$ 6,017,785</u>	<u>\$23,112,376</u>

**CITY OF ROCHESTER, MINNESOTA**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2002

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Total
Cash Flows From Operating Activities:				
Cash received from other City funds	\$ 1,604,365	\$ 101,631	\$ 5,790,333	\$ 7,496,329
Cash received from employees			1,384,873	1,384,873
Cash paid to suppliers	(15,462)	(132,908)	(8,107,735)	(8,256,105)
Net Cash Provided by (Used in) Operating Activities	1,588,903	(31,277)	(932,529)	625,097
Cash Flows From Noncapital Financing Activities:				
Transfers in		125,042		125,042
Transfers out		(70,026)		(70,026)
Net Cash Provided by Noncapital Financing Activities		55,016		55,016
Cash Flows From Capital and Related Financing Activities:				
Proceeds from sale of property	63,587			63,587
Acquisition of capital assets	(2,049,844)	(23,612)		(2,073,456)
Other receipts (payments)	12,421	(10,084)	400	2,737
Net Cash Provided By (Used in) Capital and Related Financing Activities	(1,973,836)	(33,696)	400	(2,007,132)
Cash Flows From Investing Activities:				
Investment income	207,525	124,924	376,811	709,260
Net (increase) decrease in investments	162,709	(228,556)	295,200	229,353
Net Cash Provided By (Used In) Investing Activities	370,234	(103,632)	672,011	938,613
Net (Decrease) in Cash and Cash Equivalents	(14,699)	(113,589)	(260,118)	(388,406)
Cash and Cash Equivalents, Beginning of Year	439,346	256,593	868,666	1,564,605
Cash and Cash Equivalents, End of Year	\$ 424,647	\$ 143,004	\$ 608,548	\$ 1,176,199

**CITY OF ROCHESTER, MINNESOTA**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS (CONTINUED)**  
For the Year Ended December 31, 2002

Reconciliation of Operating Income to Net Cash  
Provided by Operating Activities

	Equipment Revolving Fund	Information Technology Revolving Fund	Self- Insurance Fund	Total
Operating Income (Loss)	\$ 19,596	\$ (184,811)	\$ (767,312)	\$ (932,527)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	1,569,340	188,975		1,758,315
(Increase) Decrease In:				
Due from other funds			(758)	(758)
Due from other governmental units		(14,188)		(14,188)
Increase (Decrease) In:				
Accounts payable, operations	(33)		(8,928)	(8,961)
Deposits payable			(114,123)	(114,123)
Accrued compensation and payroll taxes			17,819	17,819
Due to other funds		(21,199)		(21,199)
Due to other governmental units		(54)	1,105	1,051
Accrued claims			(60,332)	(60,332)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 1,588,903</u>	<u>\$ (31,277)</u>	<u>\$ (932,529)</u>	<u>\$ 625,097</u>
Non Cash Transactions:				
Receipt of contributed property	\$ 35,000	\$ 30,558	\$	\$ 65,558
Decrease in fair value of investments	14,500	5,800	24,200	44,500

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**CITY OF ROCHESTER, MINNESOTA**  
**SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2002**

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**CITY OF ROCHESTER, MINNESOTA  
SCHEDULE OF CASH AND INVESTMENTS - ALL FUNDS**

December 31, 2002

			<u>Amount</u>	<u>%</u>
Cash and Deposits:				
US Bank - Rochester, Minnesota			\$ 21,422	0.01%
Wells Fargo Bank - Rochester, Minnesota			6,875,879	4.31%
Park National Bank, St. Louis Park, Minnesota			48,984	0.03%
Change Funds			7,340	0.00%
	<u>Yield</u>	<u>Maturity</u>		
Cash Equivalents:				
Guaranteed Investment Contracts	2.44-5.40	2003	12,264,964	7.70%
Short Term Government Trust	1.05	2003	12,420,974	7.79%
US Treasury Notes	3.25-6.5	2003-2006	<u>132,867</u>	<u>0.08%</u>
Sub-total Cash, Deposits and Cash Equivalents			<u>31,772,430</u>	<u>19.94%</u>
Investments:				
Municipal Bond	5.5	2024	13,092,284	8.22%
U.S. Government and Agency Securities:				
Federal Farm Credit Bank	2.3-5.3	2003-2006	3,516,790	2.21%
Financing Corporation	4.77	2003	1,013,087	0.64%
Federal Home Loan Bank	2.375-6.09	2003-2007	58,084,011	36.45%
Federal Home Loan				
Mortgage Corporation	2.625-5.329	2003-2006	28,172,951	17.68%
Federal National Mortgage				
Association	3.0-5.45	2003-2007	<u>23,700,330</u>	<u>14.87%</u>
Sub-total Investments			<u>127,579,453</u>	<u>80.06%</u>
TOTAL			<u>\$ 159,351,883</u>	<u>100.00%</u>

ALLOCATION OF CASH, CASH EQUIVALENTS AND INVESTMENTS - ALL FUNDS

Fund	<u>Cash and Cash Equivalents</u>	<u>Restricted Assets</u>	<u>Investments</u>	<u>Total</u>
General Fund	\$ 667,242	\$ 21,423	\$ 14,179,398	\$ 14,868,063
Special Revenue Funds	268,918	98,273	6,616,900	6,984,091
Debt Service Funds	3,681			3,681
Capital Project Funds			74,002,984	74,002,984
Enterprise Funds	13,948,454	12,392,111	20,316,200	46,656,765
Internal Service Funds	<u>1,176,199</u>		<u>15,660,100</u>	<u>16,836,299</u>
TOTAL	<u>\$ 16,064,494</u>	<u>\$ 12,511,807</u>	<u>\$ 130,775,582</u>	<u>\$159,351,883</u>



**CITY OF ROCHESTER, MINNESOTA**  
**SCHEDULE OF CASH AND SECURITY FOR DEPOSIT**  
December 31, 2002

	<u>Wells Fargo Bank</u>	<u>US Bank</u>	<u>Others</u>
Security for Deposits:			
Federal National Mortgage Association	\$ 21,395,000	\$ 9,403,000	
Government National Mortgage Association	1,600,000		
Federal Home Loan Mortgage Corp		190,000	
TOTAL PAR VALUE OF SECURITIES	<u>\$ 22,995,000</u>	<u>\$ 9,593,000</u>	
Market Value of Securities	\$ 16,938,333	\$ 1,354,912	
90% of security market value applicable to pledge requirement	15,244,500	1,219,421	
F.D.I.C.	100,000	100,000	\$ 100,000
TOTAL SECURITY	<u>\$ 15,344,500</u>	<u>\$ 1,319,421</u>	<u>\$ 100,000</u>
Deposits:			
Book Balance	\$ 6,875,879	\$ 21,422	\$ 48,984
TOTAL APPLICABLE TO SECURITY	<u>\$ 6,875,879</u>	<u>\$ 21,422</u>	<u>\$ 48,984</u>

Pursuant to Minnesota law, total deposits cannot exceed F.D.I.C. or F.S.L.I.C. insurance plus ninety percent of the market value of securities pledged as collateral by the bank.

The Federal Deposit Insurance Corporation provides additional security of \$100,000 at each depository bank of demand deposits.

**SCHEDULE 3**

**CITY OF ROCHESTER, MINNESOTA**  
**SCHEDULE OF DELINQUENT TAXES RECEIVABLE - ALL FUNDS**  
December 31, 2002

	<u>Total</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Project Funds</u>	<u>Enter- prise Funds</u>
Delinquent Taxes by Year:					
Fiscal Year:					
1992	\$ 55	\$ 33	\$ 17	\$ 5	\$
1993	77	45	24	7	1
1994	158	95	50	11	2
1995	791	489	243	52	7
1996	525	330	160	30	5
1997	1,622	1,031	476	100	15
1998	3,335	2,065	1,015	224	31
1999	4,416	2,653	1,370	356	37
2000	9,717	3,318	3,310	3,004	85
2001	24,472	11,556	6,807	5,908	201
2002	<u>450,047</u>	<u>76,926</u>	<u>53,159</u>	<u>318,296</u>	<u>1,666</u>
Total Delinquent Taxes on Records of the Olmsted County Auditor	495,215	98,541	66,631	327,993	2,050
Less: Estimated Uncollectible Delinquent Taxes	<u>(14,856)</u>	<u>(2,956)</u>	<u>(1,999)</u>	<u>(9,840)</u>	<u>(61)</u>
Net Delinquent Taxes Receivable	<u>\$ 480,359</u>	<u>\$ 95,585</u>	<u>\$ 64,632</u>	<u>\$ 318,153</u>	<u>\$ 1,989</u>

**CITY OF ROCHESTER, MINNESOTA**  
**SCHEDULE OF CHANGES IN FIXED ASSETS AND DEPRECIATION**  
**EQUIPMENT REVOLVING FUND**

For the Year Ended December 31, 2002

	ASSETS				Balance 12/31/02
	Balance 1/1/02	Additions	Retirements	Transfers	
Trucks, power operated equipment and autos:					
General Government:					
City Hall Maintenance	\$ 52,647	\$	\$ 1,380	\$	\$ 51,267
Copy Center	46,932				46,932
Total General Government	<u>99,579</u>	<u></u>	<u>1,380</u>	<u></u>	<u>98,199</u>
Public Safety:					
Police	838,023	359,445	144,630		1,052,838
Fire	3,756,007	75,333	9,995		3,821,345
Fire Hazmat Response	35,544				35,544
Building Safety	148,228	104,666	21,218		231,676
Animal Control	31,485				31,485
Total Public Safety	<u>4,809,287</u>	<u>539,444</u>	<u>175,843</u>	<u></u>	<u>5,172,888</u>
Public Works:					
Engineering	336,613	30,601	10,664		356,550
Traffic Engineer	254,783	51,603	19,679		286,707
Street and Alley	4,600,204	631,815	388,189		4,843,830
Total Public Works	<u>5,191,600</u>	<u>714,019</u>	<u>418,532</u>	<u></u>	<u>5,487,087</u>
Parking	<u>91,060</u>	<u>97,679</u>	<u></u>	<u></u>	<u>188,739</u>
Library	<u>180,815</u>	<u></u>	<u></u>	<u></u>	<u>180,815</u>
Municipal Recreation System:					
Administration	15,716				15,716
Recreation	6,437		6,437	13,479	13,479
Golf	851,975	149,548	101,007	(5,795)	894,721
Volleyball Center	10,347				10,347
Graham Arena	100,274	56,849	36,486		120,637
Park	1,709,271	375,457	246,925	(7,684)	1,830,119
Recreation Center	48,160		1,650		46,510
Flood Control Maintenance	153,740	51,607	36,535		168,812
Mayo Civic Center	91,091		7,022		84,069
Total Municipal Recreation System	<u>2,987,011</u>	<u>633,461</u>	<u>436,062</u>	<u></u>	<u>3,184,410</u>
Sewer Utility Fund:					
Sewer Collection System	602,140	97,959	82,635		617,464
Water Reclamation Plant	1,085,576	5,009	4,499		1,086,086
Total Sewer Utility	<u>1,687,716</u>	<u>102,968</u>	<u>87,134</u>	<u></u>	<u>1,703,550</u>
Equipment Not In Service	<u>16,943</u>	<u></u>	<u>16,943</u>	<u></u>	<u></u>
Total Machinery and Equipment	<u>\$ 15,064,011</u>	<u>\$ 2,087,571</u>	<u>\$ 1,135,894</u>	<u>\$</u>	<u>\$ 16,015,688</u>

**SCHEDULE 4**

**ALLOWANCE FOR DEPRECIATION**

<u>Balance 1/1/02</u>	<u>Depreciation</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance 12/31/02</u>	<u>Remaining Book Value</u>
\$ 21,472	\$ 7,841	\$ 1,083	\$	\$ 28,230	\$ 23,037
11,224	6,586	1,116		16,694	30,238
<u>32,696</u>	<u>14,427</u>	<u>2,199</u>		<u>44,924</u>	<u>53,275</u>
393,660	251,998	138,441		507,217	545,621
892,561	285,556	4,866		1,173,251	2,648,094
35,544				35,544	
41,734	27,217	21,058		47,893	183,783
19,700	5,455			25,155	6,330
<u>1,383,199</u>	<u>570,226</u>	<u>164,365</u>		<u>1,789,060</u>	<u>3,383,828</u>
172,924	29,596	7,390		195,130	161,420
124,426	29,699	8,609		145,516	141,191
<u>2,343,361</u>	<u>365,678</u>	<u>334,185</u>		<u>2,374,854</u>	<u>2,468,976</u>
<u>2,640,711</u>	<u>424,973</u>	<u>350,184</u>		<u>2,715,500</u>	<u>2,771,587</u>
<u>35,854</u>	<u>11,738</u>			<u>47,592</u>	<u>141,147</u>
<u>56,180</u>	<u>24,723</u>			<u>80,903</u>	<u>99,912</u>
3,924	2,632			6,556	9,160
3,134		3,134	13,479	13,479	
452,344	115,414	92,727	3,911	478,942	415,779
2,852	1,457			4,309	6,038
64,877	9,800	36,473		38,204	82,433
995,824	214,813	229,456	(17,390)	963,791	866,328
25,195	4,133	1,012		28,316	18,194
99,625	27,326	32,713		94,238	74,574
<u>28,414</u>	<u>8,549</u>	<u>4,274</u>		<u>32,689</u>	<u>51,380</u>
<u>1,676,189</u>	<u>384,124</u>	<u>399,789</u>		<u>1,660,524</u>	<u>1,523,886</u>
365,353	48,915	82,273		331,995	285,469
<u>550,193</u>	<u>90,214</u>	<u>4,500</u>		<u>635,907</u>	<u>450,179</u>
<u>915,546</u>	<u>139,129</u>	<u>86,773</u>		<u>967,902</u>	<u>735,648</u>
<u>\$6,740,375</u>	<u>\$1,569,340</u>	<u>\$ 1,003,310</u>	<u>\$</u>	<u>\$7,306,405</u>	<u>\$ 8,709,283</u>

**SCHEDULE 5**

**CITY OF ROCHESTER, MINNESOTA**  
**SCHEDULE OF BONDS PAYABLE**  
December 31, 2002

	INTEREST RATES AND DATES	ISSUE DATE	FINAL MATURITY DATE	ANNUAL SERIES PAYMENTS	AUTHOR- IZATION	ISSUED	RETIRED	OUTSTANDING
<u>General Obligation Tax</u>								
<u>Increment Bonds:</u>								
Tax Increment Bonds Series 1985 - str 12/1/96	6.45, 6.50% (6/1; 12/1)	12/1/86	12/1/05	1,150,000 (2003) 1,225,000 (2004) 1,350,000 (2005)	\$ 4,775,000		\$1,050,000	\$ 3,725,000
Taxable Tax Increment Bonds District 7, Series 1997	5.50% (2/1; 8/1)	3/4/97	2/1/24		2,669,380		35,769	2,633,611
Total General Obligation Tax Increment Bonds					7,444,380		1,085,769	6,358,611
<u>General Obligation Sales</u>								
<u>Tax Revenue Bonds:</u>								
Temporary General Obligation Sales Tax Revenue Bonds, Series 2000A	4.40% (6/1; 12/1)	7/15/01	6/1/03	17,925,000 (2003)	17,925,000			17,925,000
General Obligation Taxable Sales Tax Revenue Bonds, Series 2000	6.35% (2/1)	7/6/01	2/1/10		10,458,673			10,458,673
Total General Obligation Sales Tax Revenue Bonds					28,383,673			28,383,673
<u>General Obligation</u>								
<u>Revenue Bonds:</u>								
Wastewater Treatment Refunding Bonds 2001A dated September 15, 2001- str 12/1/07	3.5, 3.7, 3.8 3.9, 4.0% (6/1; 12/1)	9/15/01	12/1/11	730,000 (2003) 770,000 (2004) 785,000 (2005) 820,000 (2006) 830,000 (2007) 865,000 (2008) 900,000 (2009) 930,000 (2010) 990,000 (2011)	8,275,000		655,000	7,620,000
Total General Obligation Revenue Bonds					8,275,000		655,000	7,620,000

**CITY OF ROCHESTER, MINNESOTA**  
**SCHEDULE OF BONDS PAYABLE (CONTINUED)**  
December 31, 2002

	INTEREST RATES AND DATES	ISSUE DATE	FINAL MATURITY DATE	ANNUAL SERIES PAYMENTS	AUTHOR- IZATION	ISSUED	RETIRED	OUTSTANDING
<u>Revenue Bonds:</u>								
Electric Utility Revenue Bonds, Series 2000	4.75, 4.85, 5.0, 5.1, 5.125, 5.20 5.25% (6/1; 12/1)	12/1/00	12/1/30	630,000 (2003) 660,000 (2004) 690,000 (2005) 725,000 (2006) 755,000 (2007) 795,000 (2008) 830,000 (2009) 865,000 (2010) 905,000 (2011) 950,000 (2012) 995,000 (2013) 1,045,000 (2014) 1,095,000 (2015) 1,150,000 (2016) 1,210,000 (2017) 1,270,000 (2018) 1,335,000 (2019) 1,405,000 (2020) 1,475,000 (2021) 1,555,000 (2022) 1,635,000 (2023) 1,725,000 (2024) 1,815,000 (2025) 1,910,000 (2026) 2,010,000 (2027) 2,115,000 (2028) 2,225,000 (2029) 2,340,000 (2030)	36,715,000		600,000	36,115,000
Subtotal Revenue Bonds					36,715,000		600,000	36,115,000

**CITY OF ROCHESTER, MINNESOTA**  
**SCHEDULE OF BONDS PAYABLE (CONTINUED)**  
December 31, 2002

	INTEREST RATES AND DATES	ISSUE DATE	FINAL MATURITY DATE	ANNUAL SERIES PAYMENTS	AUTHOR- IZATION	ISSUED	RETIRED	OUTSTANDING
<u>Revenue Bonds (continued):</u>								
Electric Utility Revenue Bonds, Series 2002A	3.00, 3.25, 3.50, 3.75, 4.00, 4.125 4.25, 4.375, 4.50% (12/1)	8/15/02	12/1/17	445,000 (2003) 605,000 (2004) 620,000 (2005) 640,000 (2006) 660,000 (2007) 685,000 (2008) 710,000 (2009) 740,000 (2010) 770,000 (2011) 805,000 (2012) 840,000 (2013) 875,000 (2014) 915,000 (2015) 960,000 (2016) 1,005,000 (2017)		11,275,000		11,275,000
Total Revenue Bonds					36,715,000	11,275,000	600,000	47,390,000
TOTAL BONDS PAYABLE					<u>\$80,818,053</u>	<u>\$11,275,000</u>	<u>\$2,340,769</u>	<u>\$ 89,752,284</u>

(1) The Taxable Tax Increment Bonds are structured without fixed principal maturities. The payments are equal to the amount of "Available Tax Increments" received by the City within the six month period preceding each payment date. All payments are applied first to pay accrued and unpaid interest and next to reduction of principal.

(2) The Sales Tax Taxable Bonds are structured without fixed principal maturities. The payments are equal to the amount of sales and use tax and such other revenues pledged. All payments are applied first to pay accrued and unpaid interest and next to reduction of principal.

**CITY OF ROCHESTER, MINNESOTA**  
**SCHEDULE OF DEBT SERVICE REQUIREMENTS - ALL FUNDS**

December 31, 2002

			General Obligation (1)						Revenue Bonds	
			Tax Increment Bonds (3)		Sales Tax Revenue Bonds (4)		Wastewater Treatment		Electric Utility	
							Plant Revenue Refunding Bonds		Revenue Bonds	
Total (2)										
Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$20,880,000	\$ 3,330,021	\$1,150,000	\$242,125	\$17,925,000	\$ 394,350	\$ 730,000	\$ 279,800	\$ 1,075,000	\$ 2,413,746
2004	3,260,000	2,648,843	1,225,000	167,375			770,000	254,250	1,265,000	2,227,218
2005	3,445,000	2,492,768	1,350,000	87,750			785,000	227,300	1,310,000	2,177,718
2006	2,185,000	2,326,169					820,000	199,825	1,365,000	2,126,344
2007	2,245,000	2,243,831					830,000	171,125	1,415,000	2,072,706
2008	2,345,000	2,157,469					865,000	142,075	1,480,000	2,015,394
2009	2,440,000	2,063,727					900,000	110,070	1,540,000	1,953,657
2010	2,535,000	1,963,476					930,000	75,870	1,605,000	1,887,606
2011	2,665,000	1,856,518					990,000	39,600	1,675,000	1,816,918
2012	1,755,000	1,743,131							1,755,000	1,743,131
2013	1,835,000	1,665,806							1,835,000	1,665,806
2014	1,920,000	1,583,948							1,920,000	1,583,948
2015	2,010,000	1,495,604							2,010,000	1,495,604
2016	2,110,000	1,401,967							2,110,000	1,401,967
2017	2,215,000	1,302,468							2,215,000	1,302,468
2018	1,270,000	1,195,533							1,270,000	1,195,533
2019	1,335,000	1,130,445							1,335,000	1,130,445
2020	1,405,000	1,061,025							1,405,000	1,061,025
2021	1,475,000	987,262							1,475,000	987,262
Thereafter	17,330,000	4,858,088							17,330,000	4,858,088
	\$76,660,000	\$39,508,099	\$3,725,000	\$497,250	\$17,925,000	\$ 394,350	\$7,620,000	\$1,499,915	\$47,390,000	\$ 37,116,584

(1) The General Obligation GO Unlimited Tax Levy Bonds are initially payable from sources other than general property tax: Tax Increment Bonds are payable from tax increment revenues; Sales Tax Bonds are payable from sales tax revenue and Wastewater Treatment Bonds are payable from sewer service charges.

(2) Does not include notes payable of \$3,895,976

(3) Does not include the General Obligation Taxable Tax Increment Bonds 1997, District No. 7 which are structured without fixed principal maturities.

(4) Does not include the General Obligation Taxable Sales Tax Revenue Bonds 2000 which are structured without fixed principal maturities.



**SCHEDULE 7**

**CITY OF ROCHESTER, MINNESOTA**  
**SCHEDULE OF PERSONNEL EXPENDITURES-ALL FUNDS**  
For The Year Ended December 31, 2002

	Number of Employees		Salaries and Wages Amount	Pension	Social Security	Employer Contributions			Other (1) Contributions	Total Wages and Contributions
	Full Time	All Other				Group Insurance	Workers' Compensation	Unemployment Compensation		
<u>Government and Fiduciary Fund Types</u>										
General Government	55	2	\$ 2,969,291	\$ 157,787	\$ 217,954	\$ 362,183	\$ 615	\$ 372	\$ 8,627	\$ 3,716,829
Police	138	1	8,094,630	716,986	130,255	942,192	11,158	833	21,797	9,917,851
Public Safety										
Communications	25		1,143,455	62,759	86,163	157,389	156		3,960	1,453,882
Fire	102		5,933,916	527,892	72,626	698,110	12,621	47	3,699	7,248,911
Fire Hazmat Response Team			43,224	4,020	374		64			47,682
Building Safety	24	2	1,398,712	75,817	105,415	173,398	878	2,026	1,071	1,757,317
Animal Control	3		122,806	6,575	8,969	19,651	404	936	63	159,404
Flood Control	2	2	102,569	5,624	7,829	11,609	251	2,967		130,849
Public Works	86	6	4,408,855	239,528	325,282	557,340	11,042		8,001	5,550,048
Music	4		209,212	10,493	15,777	23,100	90	376	639	259,687
Library	52	69	2,713,775	139,559	204,097	292,344	863		8,511	3,359,149
Park and Recreation	70	198	4,505,061	206,204	339,370	474,233	8,853	32,469	2,784	5,568,974
<b>TOTAL</b>	<b>561</b>	<b>280</b>	<b>\$31,645,506</b>	<b>\$2,153,244</b>	<b>\$1,514,111</b>	<b>\$3,711,549</b>	<b>\$ 46,995</b>	<b>\$ 40,026</b>	<b>\$ 59,152</b>	<b>\$39,170,583</b>
<u>Proprietary Fund Types</u>										
Electric Utility	169	8	\$10,454,448	\$ 564,843	\$ 749,594	\$1,071,009	\$ 24,631	\$ 5,977	\$ 4,442	\$12,874,944
Water Utility	19		1,103,649	58,864	81,350	118,919			504	1,363,286
Sewer Utility	35		1,692,208	95,942	123,400	252,830	6,437		1,139	2,171,956
Parking	4		171,332	9,364	13,109	24,293	402		276	218,776
<b>TOTAL</b>	<b>227</b>	<b>8</b>	<b>\$13,421,637</b>	<b>\$ 729,013</b>	<b>\$ 967,453</b>	<b>\$1,467,051</b>	<b>\$ 31,470</b>	<b>\$ 5,977</b>	<b>\$ 6,361</b>	<b>\$16,628,962</b>

(1) Other contributions include transit and parking subsidies and administration fees for the City's Flexible Benefits Plan.

**CITY OF ROCHESTER, MINNESOTA**  
**STATISTICAL SECTION**  
**DECEMBER 31, 2002**

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TABLE I

**CITY OF ROCHESTER, MINNESOTA**  
**GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION (1)**  
**LAST TEN FISCAL YEARS**

Fiscal Year	General Government (2)	Public Safety (3)	Public Works (4)	Culture/ Recreation	Library	Total
1993	\$ 3,554,417	\$ 15,989,006	\$ 7,256,025	\$ 6,639,788	\$ 2,514,749	\$ 35,953,985
1994	3,735,817	17,185,942	7,391,651	6,811,401	2,687,427	37,812,238
1995	3,888,037	18,868,607	7,632,193	7,038,638	2,977,523	40,404,998
1996	4,151,528	18,739,707	8,168,338	7,175,824	3,246,992	41,482,389
1997	4,117,143	18,547,963	8,170,450	7,106,875	3,391,262	41,333,693
1998	4,461,136	18,939,105	9,674,681	7,665,990	3,537,181	44,278,093
1999	5,018,272	19,469,713	10,065,589	8,181,682	3,806,174	46,541,430
2000	5,442,316	20,479,801	11,464,730	8,837,149	3,946,256	50,170,252
2001	5,627,936	22,325,851	12,489,479	9,329,828	4,293,090	54,066,184
2002	7,694,733	23,951,743	13,180,006	9,610,192	4,627,973	59,064,647

(1) Includes General and Special Revenue Funds

(2) Includes Economic Development/Tourism, Community Reinvestment and Unallocated

(3) Includes Law Enforcement Block Grant

(4) Includes Airport Operations and Transit

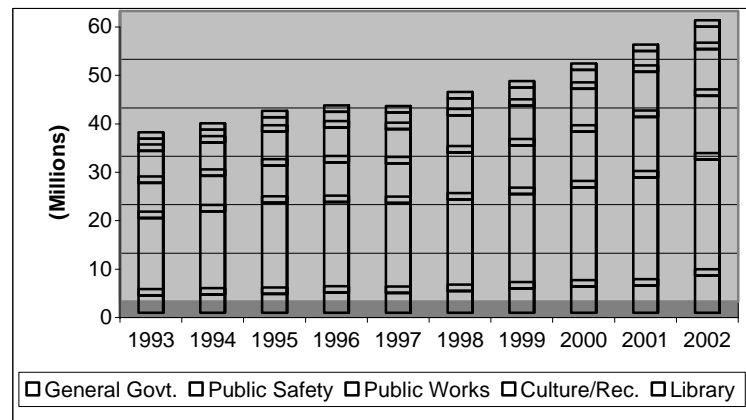
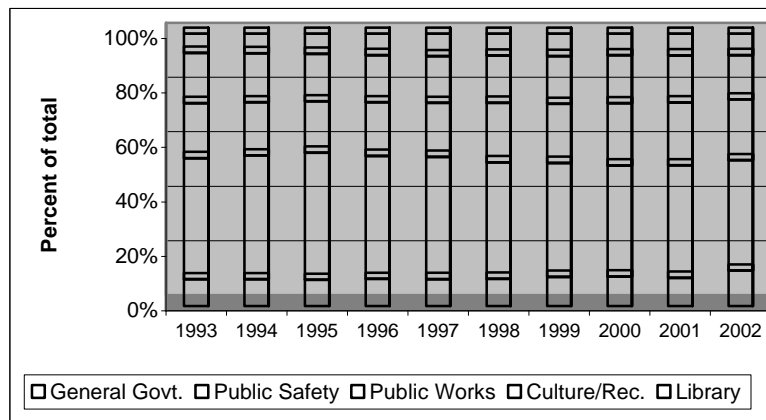


TABLE II

**CITY OF ROCHESTER, MINNESOTA**  
**GENERAL GOVERNMENTAL AND SPECIAL REVENUES BY SOURCE (1)**

Fiscal Year	Taxes (2)	Licenses And Permits	Inter-Governmental Revenue	Charges For Services	Fines And Forfeits	Miscellaneous Revenues	Total
1993	\$ 11,941,746	\$ 1,627,969	\$ 12,479,672	\$ 3,989,452	\$ 232,181	\$ 571,761	\$ 36,235,146
1994	12,784,019	1,631,833	12,936,033	4,416,184	231,443	760,156	38,246,413
1995	14,273,966	1,433,433	13,150,514	4,335,782	205,393	640,700	39,622,092
1996	15,623,492	1,378,228	13,703,978	4,735,638	227,696	914,551	42,091,032
1997	16,144,807	1,829,172	14,395,128	5,207,055	298,180	693,527	44,156,405
1998	16,666,551	2,089,061	14,820,225	6,932,927	354,644	1,207,581	48,235,657
1999	16,911,642	2,588,584	14,710,492	7,485,728	423,285	836,807	49,590,512
2000	15,302,309	2,805,189	14,975,186	7,950,457	444,225	5,994,203	54,718,589
2001	20,176,651	2,779,127	15,171,666	8,182,950	476,688	1,658,168	56,022,299
2002	20,998,164	2,181,469	18,061,017	9,510,572	490,632	482,096	51,723,950

(1) Includes General and Special Revenue Funds

(2) Includes Hotel-Motel Tax and Franchise Taxes

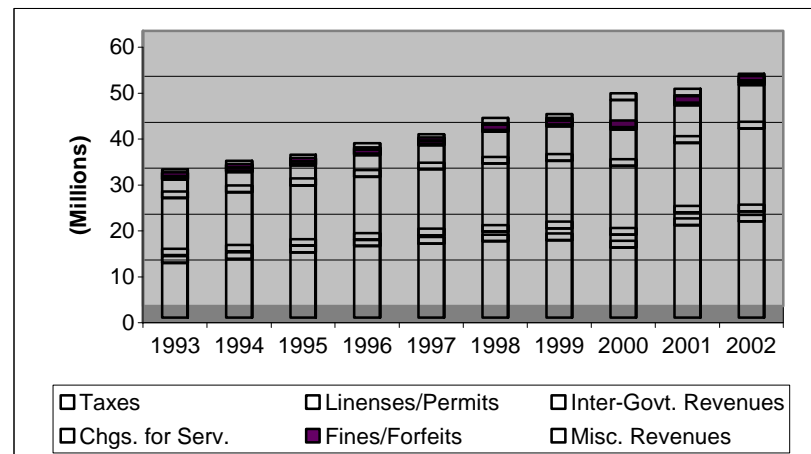
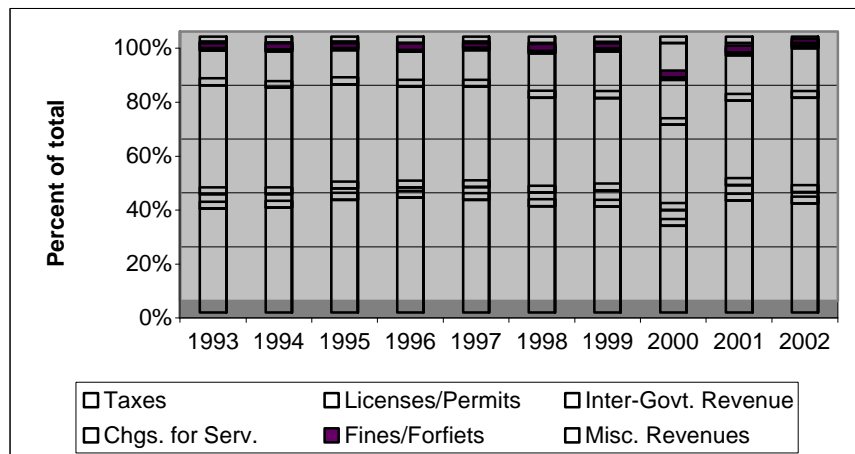


TABLE III

**CITY OF ROCHESTER, MINNESOTA  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS**

Fiscal Year	Total Tax Levy (1)	Current Collections		Delinquent Collections	Total Collections	% Of Total Tax Levy	Total Delinquent Taxes (2)	Delinquent Taxes As A % Of Total Tax Levy
		Amount (1)	% Of Total Tax Levy					
1993	\$ 11,889,586 4,292,741	\$ 11,717,922 4,292,741	98.94%	\$ 105,904	\$ 16,116,567	99.59%	\$ 2,195	0.01%
1994	12,580,361 4,435,619	12,435,098 4,435,619	99.15	125,331	16,996,048	99.88	2,832	0.02
1995	13,896,049 4,440,686	13,744,947 4,440,686	99.18	141,648	18,327,281	99.95	4,033	0.02
1996	14,746,072 4,282,077	14,589,043 4,282,077	99.18	186,082	19,057,202	100.15	4,298	0.02
1997	15,147,909 4,370,077	15,016,545 4,370,077	99.33	156,725	19,543,347	100.13	3,811	0.02
1998	15,678,086 4,370,774	15,543,788 4,370,774	99.33	105,142	20,019,704	99.85	5,802	0.03
1999	16,087,180 4,368,552	15,997,336 4,368,552	99.56	84,182	20,450,070	99.97	13,416	0.07
2000	17,600,000 4,369,974	17,374,147 4,369,974	98.97	81,932	21,826,053	99.34	27,078	0.12
2001	18,970,957 4,370,953	18,847,216 4,370,953	99.47	201,754	23,419,923	100.33	110,003	0.47
2002	20,438,982 2,041,073	20,263,091 2,041,073	99.22	102,971	22,407,135	99.68	148,234	0.66

(1) Second amount is the HACA and Equalization Aid adjustment for years 1993 - 2001 and market value credit for 2002.

(2) On records of Olmsted County Auditor before allowance for uncollectible and excludes Tax Increment Districts.

TABLE IV

**CITY OF ROCHESTER, MINNESOTA**  
**TAX CAPACITY AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY**  
**LAST TEN FISCAL YEARS**

Fiscal Year	Real Property		Personal Property		Total		% of Tax Capacity to Total Estimated Market Value
	Tax Capacity	Estimated Market Value	Tax Capacity	Estimated Market Value	Tax Capacity (1)	Estimated Market Value (1)	
1994	\$54,138,560	\$2,530,899,200	\$780,013	\$17,071,770	\$54,918,573	\$2,547,970,970	2.16%
					51,994,612	2,476,516,763	2.10
1995	56,490,505	2,628,052,000	797,108	17,087,389	57,287,613	2,645,139,389	2.17
					54,395,040	2,574,280,758	2.11
1996	57,458,282	2,689,632,900	768,794	16,494,653	58,227,076	2,706,127,553	2.15
					55,339,428	2,635,531,522	2.10
1997	62,364,416	2,835,168,300	780,290	17,173,715	63,144,706	2,852,342,015	2.21
					59,713,715	2,772,412,336	2.15
1998	56,997,061	2,920,138,600	791,108	17,439,092	57,788,169	2,937,577,692	1.97
					54,835,153	2,855,008,537	1.92
1999	54,102,977	3,096,167,400	631,540	18,304,469	54,734,517	3,114,471,869	1.76
					52,080,784	2,992,047,069	1.74
2000	59,455,277	3,444,768,100	654,431	19,503,400	60,109,708	3,464,271,500	1.74
					57,186,771	3,308,032,200	1.73
2001	67,070,403	3,873,614,700	622,362	18,559,600	67,692,765	3,892,174,300	1.74
					64,293,994	3,672,366,000	1.75
2002	56,758,188	4,526,307,800	394,054	19,550,600	57,152,242	4,545,858,400	1.26
					54,427,635	4,283,599,300	1.27
2003	63,783,214	5,158,173,100	493,262	24,938,100	64,276,476	5,183,111,200	1.24
					61,120,057	4,866,060,700	1.26

(1) Second amounts are net of Tax Increment.

NOTE - Valuations are determined as of January 1 of year preceding tax collection year.

TABLE V

**CITY OF ROCHESTER, MINNESOTA  
PROPERTY TAX RATES AND TAX LEVIES  
DIRECT AND OVERLAPPING GOVERNMENTS  
YEARS ENDED DECEMBER 31, 1993 THROUGH 2003**

<u>Fiscal Year</u>	<u>City</u>	<u>School</u>	<u>County</u>	<u>Total</u>
<u>Tax Rates (1)</u>				
1993	23.815 %	62.684 %	38.882 %	125.381 %
1994	24.260	66.495	38.187	128.942
1995	25.600	66.061	37.819	129.480
1996	26.695	62.478	38.352	127.525
1997	25.410	66.398	37.095	128.903
1998	28.637	63.224	41.845	133.706
1999	30.961	59.386	47.138	137.485
2000	30.840	60.084	46.645	137.569
2001	29.558	53.146	44.642	127.346
2002	41.376	27.961	58.608	127.945
2003	40.873	26.417	57.057	124.347

(1) Percent of Net Tax Capacity Value

	<u>Property Tax Levies (2)</u>			
1993	\$ 11,889,586	\$ 31,350,859	\$ 19,471,687	\$ 62,712,132
1994	12,580,361	34,409,087	19,855,182	66,844,630
1995	13,896,049	35,877,450	20,571,660	70,345,159
1996	14,746,072	34,518,040	21,223,777	70,487,889
1997	15,147,909	39,582,964	22,150,803	76,881,676
1998	15,678,086	38,817,756	22,945,770	77,441,612
1999	16,087,180	35,126,450	24,549,840	75,763,470
2000	17,600,000	37,895,489	26,674,769	82,170,258
2001	18,970,957	37,894,626	28,702,125	85,567,708
2002	20,438,982	20,866,438	31,898,948	73,204,368
2003	22,778,116	22,505,010	34,873,270	80,156,396

(2) HACA adjusted levy from 1993 - 2001, excludes market value credit of \$2,041,073 in 2002 and \$2,172,640 in 2003.



**CITY OF ROCHESTER, MINNESOTA  
PRINCIPAL TAXPAYERS**

**TABLE VI**

<u>Taxpayers (1)</u>	<u>2001 (for taxes payable in 2002)</u>		<u>% of Total City Tax Capacity</u>
	<u>Estimated Market Value</u>	<u>Net Tax Capacity</u>	
Mayo Properties	\$ 180,375,300	\$ 3,533,035	6.18%
IBM Corporation	49,723,200	979,573	1.71
General Growth (Apache Mall)	46,003,800	918,559	1.61
BGD5 - LTD Partnership	27,251,900	544,288	0.95
IRET Properties	20,649,600	381,879	0.67
Utilicorp United	18,428,400	367,783	0.64
Kahler-Sunstone	18,331,900	365,200	0.64
Wells Fargo	17,068,097	236,914	0.42
Leslie E Nelson	16,925,500	316,901	0.55
Mortenson Properties	15,197,000	303,210	0.54
Others	<u>4,135,903,703</u>	<u>49,204,900</u>	<u>86.09</u>
TOTAL	<u>\$ 4,545,858,400</u>	<u>\$ 57,152,242</u>	<u>100.00%</u>

(1) Source: Olmsted County Assessor.

TABLE VII

**CITY OF ROCHESTER, MINNESOTA  
SPECIAL ASSESSMENT LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS**

Fiscal Year	Total Levy	Current Collections		Prior Years	Total Collections	% Total Collections to Total Levy	Total Delinquent Assessments at Year End(1)
		Amount	Collection of % of Levy				
1993	\$ 882,359	\$ 815,940	92.47%	\$ 62,756	\$ 878,696	99.58%	\$ 358
1994	881,928	791,793	89.78	61,045	852,838	96.70	844
1995	843,312	771,273	91.46	73,981	845,254	100.23	1,602
1996	754,509	700,979	92.91	36,488	737,467	97.74	268
1997	824,694	778,869	94.44	118,945	897,814	108.87	2,298
1998	741,705	705,641	95.14	24,010	729,651	98.37	2,267
1999	796,969	758,196	95.13	41,706	799,902	100.37	26,152
2000	532,323	516,777	97.08	26,362	543,139	102.03	5,263
2001	600,205	568,471	94.71	22,743	591,214	98.50	30,618
2002	566,155	536,092	94.69	23,788	559,880	98.89	29,834

(1) On records of Olmsted County Auditor before allowance for uncollectible.

TABLE VIII

**CITY OF ROCHESTER, MINNESOTA  
RATIO OF NET BONDED DEBT  
TO ESTIMATED MARKET VALUE AND NET BONDED DEBT PER CAPITA  
LAST TEN FISCAL YEARS**

Levy Year	Gross Bonded Debt (1)	Available For Debt Service	Net Bonded Debt	Estimated Market Value	% of Net Bonded Debt to Estimated Market Value	Estimated Population	Net Bonded Debt Per Capita
1993	14,475,000	7,071,205	7,403,795	2,547,970,970	0.29	76,060	97
1994	13,380,000	8,327,072	5,052,928	2,645,139,389	0.19	76,865	66
1995	12,210,000	8,127,499	4,082,501	2,706,127,553	0.15	76,559	53
1996	10,960,000	6,927,824	4,032,176	2,852,342,015	0.14	77,209	52
1997	11,973,080	6,305,983	5,667,097	2,937,577,692	0.19	78,276	72
1998	12,667,080	1,026,904	11,640,176	3,114,471,869	0.37	80,186	145
1999	10,606,025	256,293	10,349,732	3,464,271,500	0.30	82,019	126
2000	36,044,380	3,705	36,040,675	3,892,174,300	0.93	85,806	420
2001	35,828,053	3,056	35,824,997	4,545,858,400	0.79	88,858	403
2002	34,742,284	3,056	34,739,228	5,183,111,200	0.67	91,264	381

2002

(1) Excludes: Wastewater Treatment Plant Revenue Bonds  
Electric Utility Revenue Bonds

\$	7,620,000
	47,390,000
\$	<u>55,010,000</u>

**CITY OF ROCHESTER, MINNESOTA**  
**COMPUTATION OF DIRECT AND INDIRECT GENERAL OBLIGATION BONDED DEBT**  
**AND LEGAL DEBT MARGIN**

December 31, 2002

Direct Debt:

	Gross Debt (1)	Less: Debt Service Funds	Net Direct Debt
General Obligation Debt:			
Supported by Sales Tax Revenue	\$ 28,383,673	\$ 2,606	\$ 28,381,067
Supported by Tax Increments	6,358,611	450	6,358,161
Total	<u>\$ 34,742,284</u>	<u>\$ 3,056</u>	<u>\$ 34,739,228</u>

(1) From Table VIII

Indirect Debt:

<u>Governmental Unit</u>	<u>2002/03 Net Tax Capacity</u>	<u>Net G.O. Debt Outstanding</u>	<u>Debt Applicable to Value in City</u>	
			<u>Percent</u>	<u>Amount</u>
Olmsted County	\$ 84,066,473	\$ 5,016,446	72.70%	\$ 3,647,179
I.S.D. #535	71,778,547	74,439,884	85.15%	63,386,209
Total City Portion				<u>\$ 67,033,387</u>

General Obligation Net Direct Debt and Indirect Debt:

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Portion Chargeable to City</u>	
		<u>Percent</u>	<u>Amount</u>
City of Rochester	\$ 34,739,228	100.00%	\$ 34,739,228
Olmsted County	5,016,446	72.70%	3,647,179
I.S.D. #535	74,439,884	85.15%	63,386,209
Total General Obligation Direct and Indirect Debt			<u>\$ 101,772,615</u>

The legal debt limit for municipalities in Minnesota is 2% of the market value of taxable property. This limit applies only to the City's general obligation tax levy bonds and excludes improvement, revenue, tax increment and sales tax supported bonds. The City has no General Obligation debt chargeable against this debt limit at December 31, 2002. The legal debt limit and the legal debt margin are the same...computed as follows...\$5,183,111,200 x 2% = \$103,662,224.

TABLE X

**CITY OF ROCHESTER, MINNESOTA**  
**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR**  
**GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES**  
**LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total General Expenditures (1)</u>	<u>Percent of General Debt Service To General Expenditures</u>
1993	\$0	\$0	\$0	\$ 35,953,985	0%
1994	0	0	0	37,812,238	0
1995	0	0	0	40,404,998	0
1996	0	0	0	41,482,389	0
1997	0	0	0	41,333,693	0
1998	0	0	0	44,278,093	0
1999	0	0	0	46,541,430	0
2000	0	0	0	50,170,252	0
2001	0	0	0	54,066,184	0
2002	0	0	0	59,064,647	0

This table relates to general bonded debt supported by tax levy only and does not include improvement, tax increment and sales tax bonds.

(1) Includes General and Special Revenue Funds.

TABLE XI

**CITY OF ROCHESTER, MINNESOTA  
REVENUE BOND COVERAGE  
SEWER UTILITY FUND  
LAST TEN FISCAL YEARS**

Fiscal Year	Operating Revenues And Taxes	Expenses (1)	Net Revenue Available For Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1993	7,331,825	4,272,732	3,059,093	75,000	1,209,613	1,284,613	2.38
1994	8,067,958	4,393,991	3,673,967	425,000	1,205,112	1,630,112	2.25
1995	7,797,952	4,490,539	3,307,413	575,000	1,179,188	1,754,188	1.89
1996	7,414,662	4,271,338	3,143,324	600,000	1,143,537	1,743,537	1.80
1997	7,650,701	4,376,207	3,274,494	650,000	1,106,038	1,756,038	1.86
1998	8,109,712	4,577,996	3,531,716	700,000	1,065,088	1,765,088	2.00
1999	9,094,645	4,874,292	4,220,353	550,000	565,575	1,115,575	3.78
2000	8,819,470	5,025,474	3,793,996	575,000	538,625	1,113,625	3.41
2001	9,287,829	5,416,409	3,871,420	625,000	509,875	1,134,875	3.41
2002	9,214,760	5,076,108	4,138,652	655,000	357,882	1,012,882	4.09

(1) Before Depreciation

TABLE XII

**CITY OF ROCHESTER, MINNESOTA  
DEMOGRAPHIC STATISTICS  
LAST TEN FISCAL YEARS**

Year	Population (1)	Per Capita Income (2)	Public School Enrollment (3)			Unemployment (4)		
			Elementary	Secondary	Total	City	County	State
1993	76,060	23,364	8,764	6,298	15,062	3.8	3.5	5.1
1994	76,865	24,013	7,695	7,394	15,089	3.7	3.5	4.0
1995	76,559	25,406	7,505	7,702	15,207	3.1	2.9	3.7
1996	77,209	27,413	7,434	7,743	15,177	3.1	3.0	4.0
1997	78,276	28,456	7,305	8,154	15,459	2.2	2.2	3.3
1998	80,186	30,690	7,278	8,460	15,738	1.6	1.6	2.5
1999	82,019	32,359	6,947	8,621	15,568	2.1	2.0	2.8
2000	85,806	33,283	6,911	8,513	15,424	2.8	2.7	3.3
2001	88,858	35,110	6,829	9,040	15,869	2.7	2.5	3.7
2002	91,264	N/A	6,707	9,229	15,936	4.0	3.6	4.4

Sources: (1) State Demographers Estimate/2000-Census Bureau

(2) Bureau of Economic Analysis

(3) Independent School District #535. In 1994 Middle School was implemented, moving sixth grade to the secondary education level.

(4) Minnesota Department of Jobs & Training

TABLE XIII

**CITY OF ROCHESTER, MINNESOTA  
BUILDING PERMITS AND PROPERTY VALUES  
LAST TEN FISCAL YEARS**

Year	Building Permits (1)						Estimated Market Value (2)		
	Residential		Multiple Dwellings	Commercial/Industrial		Total Value	No.	Real Estate	Tax Exempt
No.	Value								
1993	418	43,611,210	2,135,040	30,013,135	47,431,117	123,190,502	1,913	2,356,494,900	541,197,000
1994	285	29,880,540	6,706,127	39,870,735	84,070,886	160,528,288	1,591	2,530,899,200	543,602,100
1995	263	30,742,591	8,284,706	6,234,954	50,439,331	95,701,582	1,649	2,628,052,000	563,846,200
1996	324	39,630,333	21,703,173	18,806,751	43,815,222	123,955,479	1,897	2,689,632,900	568,388,500
1997	428	55,411,803	22,933,864	30,453,607	90,871,683	199,670,957	2,275	2,835,168,300	586,171,200
1998	532	70,870,692	30,630,426	24,899,581	130,738,907	257,139,606	2,695	2,920,138,600	587,888,400
1999	645	88,993,665	31,737,871	73,818,538	191,481,590	386,031,664	3,060	3,096,167,400	819,313,500
2000	675	91,078,509	61,453,937	75,862,813	201,604,821	430,000,080	3,308	3,444,768,100	873,519,300
2001	817	109,918,621	9,436,966	79,063,377	190,042,283	388,461,247	3,676	3,873,614,700	1,210,176,300
2002	945	142,814,310	57,721,772	37,499,269	84,224,977	322,260,328	4,016	4,535,866,400	1,286,533,100

Sources: (1) City Building Safety Department  
(2) Olmsted County Assessor

NOTE - Beginning in 2001, the City revised the classifications of residential and multiple dwelling properties.  
In 2002 there was one large multiple dwelling project that accounted for \$43 Million in building permits.



TABLE XIV

**CITY OF ROCHESTER, MINNESOTA  
SCHEDULE OF INSURANCE IN FORCE  
END OF FISCAL YEAR 2002**

Type of Coverage and Name of Company	Policy Number	Policy Period		Details of Coverage	Policy Limits	Annual Premium
From	To					
Property, Extended Coverage League of MN Cities Trust (C.O. Brown)	CMC-23035	8/22/02	8/22/03	Building and contents public and institutional property form with replacement cost coverage \$100,000 aggregate deductible Contractors' Equipment, Bookmobile contents, Signs at Rec Center, \$100,000 aggregate deductible	\$ 117,955,426	\$ 59,731
Property, Extended Coverage American Protection Ins., Kemper (C.O. Brown)	3NB002713-03	8/22/02	8/22/03	Building & contents at Water Reclamation Plant \$25,000 deductible	102,983,256	79,985
Fire, Extended Coverage Travelers Insurance (C.O. Brown)	P-630-709K7014-TIL-02	9/1/02	9/1/03	Building & contents at Mayo Civic Center \$10,000 deductible, includes money & securities	52,168,797 2,450,000 Personal Prop. 50,000 Money & Sec.	53,873
Auto Liability & Property Damage League of MN Cities Trust (C.O. Brown)	CMC-23035	8/22/02	8/22/03	\$1,000,000 combined single limit, \$100,000 aggregate deductible. Buses carry \$5,000 deductible	1,000,000  10,430,744 Vehicle value	134,304
Comprehensive General Liability Excludes Public Utility League of MN Cities Trust (C.O. Brown)	CMC-23035	8/22/02	8/22/03	BI \$1,000,000 combined single limit. Includes personal injury coverages. \$100,000 aggregate deductible	1,000,000	233,001

TABLE XIV

**CITY OF ROCHESTER, MINNESOTA  
SCHEDULE OF INSURANCE IN FORCE (CONTINUED)  
END OF FISCAL YEAR 2002**

Type of Coverage and Name of Company	Policy Number	Policy Period		Details of Coverage	Policy Limits	Annual Premium
From	To					
Boiler Insurance Cincinnati Ins. Co. (Hirman)	BEP2662286	8/1/02	8/1/03	Boilers and steam piping in various City buildings. Portable tanks and air tanks, \$1,500 deductible.	\$ 2,500,000	\$ 5,260
Money and Securities Kemper Group (C.O. Brown)	3FM 641 095-12	8/22/02	8/22/03	Money & securities inside and outside premises. Includes depositors forgery bond. \$100 deductible. Includes Public Utility.	1,000 to 10,000 per location 50,000 forgery bond.	3,030
Public Employees Blanket Bond Kemper Group (C.O. Brown)	3FM 641 095-12	8/22/02	8/22/03	Faithful performance blanket bond by position on all employees. Includes Public Utility.	50,000	751
Treasurers' Bond, State Surety Co. (Hirman)	RPO 457120	6/15/02	6/15/03	Bond on City Treasurer	50,000	225
Flood Insurance Redland Ins. Co. (Hirman)	Various	Various		Flood insurance on flood plain property values up to \$200,000 on each building & contents \$4,000 deductible both building and contents	Building 232,200 Contents 29,000	1,100

TABLE XIV

**CITY OF ROCHESTER, MINNESOTA  
SCHEDULE OF INSURANCE IN FORCE (CONTINUED)  
END OF FISCAL YEAR 2002**

Type of Coverage and Name of Company	Policy Number	Policy Period		Details of Coverage	Policy Limits	Annual Premium
		From	To			
PUBLIC UTILITY DEPARTMENT INSURANCE						
Hartford Steam Boiler Inspection and Insurance Co. (C.O. Brown)	STA8352032	12/31/01	12/31/02	Property & Boiler: Blanket Coverage Replacement Cost All Risk Coverage \$500,000 deductible based on location Includes: Flood Earth movement Data Processing Extra Expense	\$ 25,000,000	\$ 335,526
Excess Liability Associated Electric and Gas Insurance (C.O. Brown)	X0342A1A00	12/31/01	12/31/02	\$1,000,000 deductible Includes: Product liability Failure to supply Pollution liability Joint Venture coverage	20,000,000	39,025
General Liability & Auto League of MN Cities Trust (C.O. Brown)	CMC 21117	12/31/01	12/31/02	\$1,000,000 combined single limit \$25,000 deductible per occurrence \$100,000 aggregate deductible	1,000,000	105,182

**CITY OF ROCHESTER, MINNESOTA**  
**MISCELLANEOUS STATISTICAL DATA**  
December 31, 2002

Date of Incorporation	August 5, 1858
First Charter Adopted	August 22, 1904
Date Present Charter Adopted	April 1, 1962
Form of Government	Mayor - Council
Area:	Square Miles:
1950	5.15
1960	9.21
1965	10.26
1970	14.25
1975	15.84
1980	19.07
1985	23.17
1990	29.76
1995	36.41
2000	43.09
2002	46.50
Miles of Streets:	Miles of Sewer:
Streets - paved 440	Storm 202
Sidewalks 520	Sanitary 346
Electric Department:	
Number of customers	42,295
Average daily consumption	3,206 MWH
Annual retail sales	1,170,263 MWH
Miles of distribution line	630.75
Water Department:	
Number of customers	31,629
Average daily consumption	15,645 CCF
Annual sales	5,710,415 CCF
Miles of watermain	491
Number of fire hydrants	5,610
Number of street lights	7,329
Fire Protection:	
Number of stations	4
Number of authorized employees	102

TABLE XV

**CITY OF ROCHESTER, MINNESOTA**  
**MISCELLANEOUS STATISTICAL DATA (CONTINUED)**

December 31, 2002

## Police Protection:

Number of stations	1
Number of Police Department authorized employees	142
Number of Communications Center authorized employees	25
Jail facilities for adults plus separate quarters for juveniles (1)	138
Part I Crimes	3,023
Part II Crimes	4,425
Total Part I & II Crimes	7,448
Total Arrests for Part I & II Crimes	4,425

## Recreation:

Number of acres of parks	2,915
Number of parks	80
Number of playgrounds	63
Number of golf courses	4
Number of swimming pools	2
Number of beaches	1
Number of tennis courts	46

## Employees:

Full-time	788
Other	288
Total	1,076

## Elections:

Registered voters - last general and municipal election	50,113
Number of votes cast last general and municipal election	36,552
Percentage of registered voters voting	72.94%

## Population: (2)

1940	26,312	1970	53,766
1950	29,885	1980	57,906
1960	40,663	1990	70,745
1965	47,797	2000	85,806

(1) Function of Olmsted County

(2) Source: Census Bureau

**CITY OF ROCHESTER, MINNESOTA**  
**MISCELLANEOUS STATISTICAL DATA (CONTINUED)**  
 December 31, 2002

Education: (1)

Number of schools by type:

Senior high schools (9-12)	3
Middle schools (6-8)	4
Elementary schools (K-5)	16
Nonpublic schools	13
Charter Schools	2
Community Technical college	1

ISD 535:

Number of public school administrative personnel	52
Number of public school support staff	504
Number of public school teachers	1,143
Number of public school paraprofessionals	442
Number of public school students - Birth through 12th grade (including care & treatment, out-of-district and preschool handicapped)	16,387
Enrollment:	
Grades K-5, Elementary	6,707
Grades 6-8, Middle School	3,751
Grades 9-12, Senior High	5,478
Special programs, birth-grade 12	451

Nonpublic school enrollment	3,102
-----------------------------	-------

Home school enrollment	370
------------------------	-----

Charter school enrollment	51
---------------------------	----

(1) Source: Independent School District #535

TABLE XV

**CITY OF ROCHESTER, MINNESOTA**  
**MISCELLANEOUS STATISTICAL DATA (CONTINUED)**  
December 31, 2002

Income and Trade (1)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Effective Buying Income:									
Total EBI (000):									
City of Rochester	\$1,359,352	\$1,442,924	\$1,296,863	\$1,335,749	\$1,389,541	\$1,478,205	\$1,672,223	\$1,818,104	\$2,000,025
Olmsted County	1,977,117	2,093,764	1,886,952	1,943,533	2,037,886	2,174,920	2,356,036	2,555,064	2,805,919
Median Household EBI:									
City of Rochester	\$ 39,416	\$ 41,996	\$ 36,792	\$ 37,897	\$ 39,497	\$ 40,823	\$ 43,582	\$ 46,011	\$ 46,842
Olmsted County	40,424	42,953	37,820	38,895	40,513	41,821	43,973	46,318	47,098
State	35,731	38,076	32,700	34,346	35,737	37,050	39,126	41,098	42,245
Percent of Households With EBI's in Excess of \$20,000:									
City of Rochester	78.20%	79.40%	76.00%	76.90%	78.20%	79.30%	80.70%	82.00%	85.30%
Olmsted County	79.50	81.00	77.40	78.30	79.00	80.00	81.20	82.60	85.80
State	74.40	76.20	71.20	72.90	74.10	75.20	76.70	78.10	81.60
Retail Sales:									
Total Retail Sales (000):									
City of Rochester	\$1,098,313	\$1,275,548	\$1,323,956	\$1,346,506	\$1,354,201	\$1,429,128	\$1,861,372	\$2,041,501	\$2,156,447
Olmsted County	1,165,743	1,356,232	1,398,398	1,422,216	1,441,724	1,526,406	2,256,982	2,470,736	2,584,096
Retail Sales Per Household:									
City of Rochester	\$ 36,368	\$ 42,237	\$ 43,551	\$ 44,293	\$ 44,693	\$ 46,250	\$ 56,749	\$ 59,346	\$ 61,613
Olmsted County	27,237	31,762	32,445	32,998	33,296	34,456	49,065	51,154	52,629
State	23,020	24,362	25,371	25,661	26,303	27,600	40,086	42,185	40,904

Note: The decline in the EBI in 1995 is the result of a reclassification of items included in the calculation of Effective Buying Income.

(1) Source: Sales and Marketing Management, "Survey of Buying Power."